

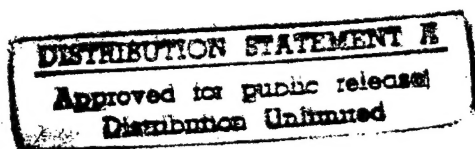
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12 AUGUST 1987



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# ***JPRS Report***



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# **China**

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# CHINA

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## DENG, ZHAO GIVE 'INCISIVE EXPOSITIONS' ON LEFTISM

HK020223 Hong Kong TA KUNG PAO in Chinese 2 Jun 87 p 1

["Special Report": "Deng Xiaoping Discusses Question Concentrating on Opposing Leftism"--quotation marks through are as published]

[Text] Beijing, 1 June--Deng Xiaoping and Zhao Ziyang recently gave incisive expositions on the question of opposing "leftism" when "leftism" is present and opposing rightism when rightism is present. Deng Xiaoping said: "We concentrate on opposing 'leftism.' 'Leftism' has formed into a habitual force in society. Not many people in China oppose reform now, but habitual things play a role and emerge when specific policies are being formulated and implemented... At the same time, however, there are rightist things which, in sum, mean 'total Westernization.'"... These remarks have attracted attention to home and abroad.

According to informed sources here, these important remarks were recently conveyed in full to medium-ranking and senior cadres.

Today's RENMIN RIBAO publishes the text of Bo Yibo's 26 May speech at the CPC Central Committee party rectification summation conference, entitled "On the Basic Summation of Party Rectification and Further Strengthening Party Building." The speech reveals the important contents mentioned above. Bo yibo said in his speech: "Comrade Xiaoping said when recently meeting Guerra, deputy secretary general of the Spanish Socialist Party and deputy premier: The experiences of the 8 or 10 years since the 3d Plenary Session of the 11th CPC Central Committee have proved that we have been successful, but this does not mean there was no interference. It is not easy to correct more than 20 years of 'leftist' thinking. We concentrate on opposing 'leftism.' 'Leftism' has formed into a habitual things play a role and emerge when specific policies are being formulated and implemented, and there is always some hankering for things of the past. The general situation is good. However, there are rightist things. These, in sum, mean 'total Westernization.' Waving the banner of support for opening up and reform, they seek to guide China into pursuing capitalism and total Westernization. During the recent student unrest the general trend was represented by four characters meaning 'total Westernization.' Such a trend does not truly support the policy of reform and opening up; it seeks to change the nature of our society. The moment China pursues total Westernization and capitalism, it is certain the four modernization cannot be accomplished." Comrade Zhao Ziyang recently

addressed a meeting of cadres in the propaganda, theoretical, and media fields, and the party schools. He also gave an incisive exposition in light of the current situation: "The positive education in opposing bourgeois liberalization must be deepened, and socialist reforms must be publicized. Equal attention must be given to both these points, and neither should be overemphasized at the expense of the other." Our party cadres and party members must profoundly appreciate and correctly grasp the spiritual essence of these important expositions. Both "leftist" and rightist erroneous trends run counter to the four cardinal principles and the principle of reform, opening up, and invigoration. The four cardinal principles are our fundamental thing in building and governing the country, and reform, opening up, and invigoration are the general principle and policy for carrying out socialist modernization, and represent the correct application and a new development of the four cardinal principles in the new period. These are the two basic points in the party's line for building socialism with Chinese characteristics; these are mutually unified, as close as lips and teeth, and both are indispensable. Unless we adhere to the four cardinal principles, reform, opening up, and invigoration are bound to slide into bourgeois liberalization and thus cannot be carried on; and unless we carry out reform, opening up, and invigoration, the four cardinal principles will lose their vitality in being linked to reality and cannot be adhered to well. Hence, we must understand that only by persevering in the two-front struggle of opposing "leftism" when "leftism" is present and opposing rightism when rightism is present can we maintain the unity and the all-round implementation of the two basic points, and thus ensure and promote the healthy development of party building and of socialist modernization.

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CSO: 4005/851

GUANGMING RIBAO ASSESSES MAO ZEDONG THOUGHT ON ARTS

HK191520 Beijing GUANGMING RIBAO in Chinese 2 Jun 87 p 3

[Article by Ding Zhenhai (0002 2182 3189) and Li Zhun (2621 0402): "Mao Zedong's Thinking on Literature and Art As a System and Its Development"]

[Text] Mao Zedong's Thinking on Literature and Art Is a Scientific System

During the days marking the 45th anniversary of the "talks at the Yanan forum on literature and art" by Comrade Mao Zedong, due to the needs and impetus of the reality, an enthusiasm has once again been aroused about studying Mao Zedong Thought on literature and art among literature and art theoretical circles. At present, it is a matter of how to persist in and constantly deepen this extremely significant study. We believe that the key is to strive to increase the theoretical level of studying Mao Zedong Thought on literature and art. Namely that it is necessary not only to restudy the important principles and policies put forward in the "talks" but also to deepen understanding and mastery of the Marxist world outlook, the conception of history, and the methodology embodied by the "talks." It is especially necessary to look upon Mao Zedong Thought on literature and art as a scientific theoretical system. Lenin said long ago that Marxism "is an extremely complete and well-organized scientific theory." Ten years ago, in an article entitled "Mao Zedong Thought must be correctly understood as an integral whole" Comrade Deng Xiaoping explicitly pointed out that "Mao Zedong Thought is a system, and developed Marxism" and that "comrades engaging in theoretical work should do a lot of work to expound the system of Mao Zedong Thought in every field. It is imperative to employ the system of Mao Zedong Thought to educate our party and guide our progress." Very obviously, proceeding from such a special field as literature and art to further expound Mao Zedong Thought on literature and art as a system as well as its development, and guiding the literature and art cause in the new period to progress along a healthier and more prosperous road, is the best way of commemorating the "talks," as well as an unshirkable mission for theoretical workers in socialist literature and art.

Does Marxist theory and Mao Zedong Thought on literature and art have their own system? There have always been discussions in the theoretical and literature and art circles, on how to look upon this system. We believe that to judge whether a doctrine or theory has become a system, people should

primarily observe it in the light of three aspects: first to see whether it has explicit and consistent world outlook and methodology as its guiding thinking; second, to see whether this doctrine or theory has creatively expounded and developed all the fundamental issues and main aspects in the field of study; and third, to see whether it "maintains inner relations with varied ideas" (a quotation by Engels), rather than being a mechanical piecing, or simplistic grouping together, of varied viewpoints and ideas. In other words, the varied viewpoints and ideas should develop into a logical, intrinsic, and well-arranged relationship and structure which is organically unified. If the abovementioned three conditions can be established, we can say that Mao Zedong Thought on literature and art, which was expressed fully in the "talks," really constitutes its own "system of viewpoints and doctrines," just like Marxism as a whole.

All comrades who are relatively familiar with Comrade Mao Zedong's work on literature and art, feel strongly that the dialectical materialist world view and the materialist conception of history thoroughly permeate, and are reflected in, the "talks," and his other relevant works on literature and art issues. By making use of dialectical and historical materialism as his world view, conception of history, and methodology, to observe and study a series of literature and art phenomena under the condition of a new era, Comrade Mao Zedong developed Marxist aestheticism and literature and art theories during the process of integrating them with the practice of the Chinese revolution, and the Chinese revolutionary literature and art movement, he therefore formed a system of Mao Zedong Thought on literature and art with distinctive Chinese characteristics. As we all know, exactly because of the guidance of the dialectical materialist theory of reflection, Comrade Mao Zedong after Marx, Engels, and Lenin, could thoroughly resolve the difficult aesthetic questions which had perplexed idealist aesthetes and mechanical materialists for a long time, and truly settle such a basic issue of literature and art as the relationship between literature and art and life in a materialist, dialectical, and scientific way. Exactly because of the guidance of historical materialism, Comrade Mao Zedong, after Marx, Engels, and Lenin, could for the first time comprehensively and thoroughly determine the relationship between literature and art and the people in the integration of theory with practice to look upon the people as the true motive force in the making of world history, and clearly set the "fundamental principle of serving the masses of people" to be a fundamental direction for the proletarian literature and art movement.

The reason for Mao Zedong Thought on literature and art becoming a system also lies in that its viewpoints are comprehensive, original, and systematic in conducting theoretical analyses and aesthetic expositions under the guidance of dialectical and historical materialism. In the "talks," in light of the principle of unifying history and logic, Comrade Mao Zedong observed, studied and resolved a series of orderly but internally-related, complicated, and important issues in literature and art phenomena and works. He made his unique and systematic contributions to various literature and art issues of general or special laws such as relations between literature and art and life; literature and art and the people; literature and art and the times; the

orientation of literature and art and the freedom of creation; reality and ideal; extolment and exposure; politics and truthfulness; ideology and artistry; content and form; world outlook and creation; reason and emotion; and inheritance and reference, as well as literature and art criticism; the standards and methods of literature and art criticism; the social functions and effects of literature and art; the ideological and organizational building of literature and art contingents; and so on, thus enriching and developing the literature and art theory of Marxism. Moreover, these creative ideas have unified intrinsic connections and well-organized logic relations and structures in the content and expression. This is an outstanding characteristic of the system of Mao Zedong Thought on literature and art as a developed literature and art theory of Marxism-Leninism.

#### Relations Between Literature and Art and the People and Between Literature and Art and Life Is the Key Content of This System

In the introduction to the "talks," Comrade Mao Zedong first stressed that "it is a basic Marxist concept that being determines consciousness, that the objective realities of class and national struggle determine our thoughts and feelings." Proceeding from such a most fundamental viewpoint that "being determines consciousness," in the "conclusion" of the "talks" after citing "the objective and undeniable facts" in seven aspects, Comrade Mao Zedong points out that "we should consider our problems on the basis of these facts." The basic meaning of the so-called social being is the production, labor, and struggle of the masses of people. Therefore, literature and art, as one of the social ideologies, must be decided by, or serve, the most fundamental social being, the masses of people. Comrade Mao Zedong not only proposed the "fundamental principle of serving the masses of people" for literature and art in the light of "being determining consciousness" and the historical materialist concept of the masses of people making history, but also regarded the "issue of serving the masses" and the "issue of how to serve the masses" as the "key issues" and connected with all the links, levels, and aspects of literature and art works, creation, and criticism that he ever mentioned. He pointed out that "this question of 'for whom?' is fundamental; it is a question of principle." If this question is solved, many other questions will also be solved. After the question of "for whom" is solved, there is a matter of "how to serve?" As means should be subordinate to aims, all the issues of polarization and improvement, inheritance and reference, extolment and exposure, intention and effect, artistic form and style, and so on, must be based on the standard of "being appreciated by and beneficial to the masses."

It is quite evident that just like a red thread the "fundamental principle of serving the masses of people" runs through the propositions from the "talks," on all the relevant important issues, and forms a coherent and well-organized organic array.

In the talks, another basic line which is closely related to literature and art and the people, and makes them mutually supplementary to each other, is the relationship between literature and art and life. This is a creative application and development of the materialist world outlook and methodology

in the field of literature and art. Comrade Mao Zedong first clearly confirms social life to be the only source for literature and art creation, and says that "they are the only source, for there can be no other." Then, by creatively applying the principle of practice being the basis and bridge for understanding, he points out that "China's revolutionary writers and artists, writers and artists of promise, must go among the masses. They must for a long period of time unreservedly and whole-heartedly go among the masses of workers, peasants, and soldiers, go into the heat of the struggle, go to the only source, the broadest and richest source, in order to observe, experience, study, and analyze all the different kinds of people, all the classes, all the masses, all the vivid patterns of life and struggle, and all the raw materials, of literature and art. Only then can they proceed to creative work." Thus, he points out a road of creation "going deep into life," to all the revolutionary literature and art workers. The course of going deep into life is an integration of the subject of creation with the object of reflection, as well as an integration of the revolutionary writers with the masses of people, which most evidently and fully reflects the common demands of dialectical and historical materialism. After pointing out that social life is the only source for literature and art creation and that people should acquire the source of creation by "going deep into life," Comrade Mao Zedong further points out the initiative of the subject of creation to reflect life as well as the dual and bi-directional characteristic of such an initiative: people's brains can spontaneously master or correctly reflect the objective reality as well as spontaneously break away from or incorrectly reflect the objective reality. Therefore, he also concludes logically that in the course of "going deep into life" writers must also transform their own subject world and ability to understanding so as to change their emotions and feelings. Only by doing so can they cause their "brains" to correctly reflect the nature and laws of life and demonstrate the inevitable trend of history.

Judged by the above outlines, we can see that Comrade Mao Zedong creatively and organically applied some of the fundamental principles of the Marxist theory of knowledge according to their logical order to the corresponding links and levels of the relations between literature and art and life, and closely integrated the general principles and laws of dialectical materialism with the literature and art creation. In particular, with the specific practice and special laws of revolutionary literature and art creation. Therefore, these important inferences are not only very well organized but also evidently systematic and complete. Meanwhile, the logical reasoning of every level and link in the relations between literature and art and the people running through the "talks" can almost match, reflect, and dovetail every level and link of the relations between literature and art and the people along the line of historical materialism. This fully demonstrates that as a system Mao Zedong Thought on literature and art is consistent in guiding ideology, rich in content, and organic and complete in logical relations.

Being a Scientific System It Will Inevitably Develop Along With the Times

Just as Marxist theory as a whole is a constantly developing open system, the system of Mao Zedong Thought on literature and art, which is based on the



guiding ideology of dialectical and historical materialism and the basic line of relations between literature and art and life and between literature and art and the people, and fully expressed in the "talks," will also inevitably develop along with the times. As a system, Mao Zedong Thought on literature and art is also a crystallization of collective wisdom in the formation and development of which many outstanding leaders of our party have made contributions. Therefore, exactly because of this point, even though Comrade Mao Zedong committed mistakes in his later years, the system of Mao Zedong Thought on literature and art still continues to develop, and guides the progress of socialist literature and art causes in our country under the new historical conditions.

The speech greeting the Fourth Congress of Chinese Writers and Artists made by Deng Xiaoping on 30 October 1979 has provided us with an example of upholding and developing the system of Mao Zedong Thought on literature and art under the new historical condition. By integrating social practice in the new historical period with literature and art practice, the "speech" completely and accurately expounded and developed many important inferences in the system of Mao Zedong Thought on literature and art. In particular the famous inferences that "the people are the mother of literature and art workers; the artistic life of all progressive literature and art workers hinges on their blood-flesh relations with the people," and "the people need art and art needs the people all the more." This vividly embodies the living soul of the system of Mao Zedong Thought on literature and art and makes a new generalization and development in the light of the new experiences.

Taking the "speech" as an example, some leading cadres working on the literature and art front and the vast numbers of literature and art workers, also strived to proceed from social practice and literature and art practice in the new period to uphold and develop both the thinking on Marxism-Leninism and Mao Zedong Thought on literature and art, to make serious and incessant theoretical explorations. Over the last 8 or 9 years, exploratory studies have been made on many important subjects such as the relationship between literature and art and politics; elucidating of the connotation and significance of "double-hundred" principle; diversification of creative methods, particular study of the special nature and law of socialist literature and art; the relationship between the two values of literature and art or the relationship between social benefits and economic results; scientific management and macroeconomic study of socialist literature and art causes; and so on. Besides, they put forward a series of new theoretical value ideas and made gratifying contributions to pushing forward Marxism-Leninism thinking and Mao Zedong Thought on literature and art. Of course, these are only preliminary and not sufficiently systematic and deepgoing in nature, and there is still a long way to go before the demands of the times and practice can be met. Meanwhile, under the condition of our correcting "leftist" practices in dealing with the system of Mao Zedong Thought on literature and art and being influenced by some Western ideological trends in literature and art over the last few years, some practices deviating from, or even playing down the system of Mao Zedong Thought on literature and art occurred from the other side. For example,



after correcting the previous practice of isolating "serving the workers, peasants, and soldiers" from the general principle of "serving the masses of people" in an effort to overemphasize it, some people adopted an indifferent attitude toward the workers, peasants, and soldiers who form the main part of the masses of people, or even uglified the images of workers, peasants, and soldiers in their works. After correcting the previous practice of nappropriately exaggerating the political role of literature and art, some people advocated that literature and art could be separated from politics and that the farther it is separated from politics, the better. After correcting the previous practice of relating transformation of world outlook to distrust of intellectuals, some people negated the ideological transformation in every sense. And there are many other examples which set apart or even deviated from the complete system of Mao Zedong Thought on literature and art, in particular the living soul and key contents of this system. This way of doing things can only result in new confusion in literature and art thinking. It is worthwhile to seriously sum up these lessons. In short, both the attitude of the "leftist" "book worship" or "sentence worship" toward Mao Zedong Thought on literature and art which has happened in the past and present, and cannot be completely avoided in the future, and the rightist practice of attempting to depart from Mao Zedong Thought on literature and art under the excuse that some individual viewpoints and inferences by Comrade Mao Zedong are not accurate and perfect or cannot completely suit the current new situation, are all wrong. Both of these attitudes fail to treat and master Mao Zedong Thought on literature and art as a complete and developing scientific system.

The rich and tortuous course traversed by literature and art creation over the 10 years of the new period has refutably proved that the literature and art orientation of serving the masses of people and the creative road of "going deep among the people," which are the most fundamental points of the system of Mao Zedong Thought on literature and art, are still the fundamental guarantees for healthy development in the socialist literature and art cause. As far as the main trend of literature and art development in the new period is concerned, the emergence of all the outstanding works which persist on the road of realism and radiate the brilliance of revolutionary ideals, are the rich fruits of persisting in the road of "two serves" and "going deep into life" under the new historical condition. On the contrary, all the ideological trends of bourgeois liberalization and many other erroneous tendencies which exist objectively in literature and art circles; the popping up of the vulgar, pornographic, pessimistic, and decadent literature over a period of time; the emergence of "hotel literature" and "aristocratic literature"; the syndromes of abstraction and mystery; the styles of flashiness without substance; and so on, are all the expression of a lack of consciousness and enthusiasm for serving the people and socialism, and a life devoid of meaning on the part of literature and art workers. In short, these are the inevitable results of departing from the system of Mao Zedong Thought on literature and art.

Both positive and negative historical, as well as new, experiences fully prove that the system of Mao Zedong Thought on literature and art is irrefutable

truth. Meanwhile, the system of Mao Zedong Thought on literature and art is also an open system constantly blazing new trails and developing. As far as relations between literature and art and the people, and between literature and art and life, are concerned, some great historical changes have taken place to the masses of people as well as to social life under the conditions of reform, opening up to the outside world, and invigorating the domestic economy in the 1980's, as compared with the 1940's in the Yanan liberation area. Therefore, during the course of "integrating themselves with the new era of the masses in the 1980's," Chinese writers should have some new contents, requirements, and practices which are different from those of Chinese writers during their "course of integrating themselves with the new era of the masses in the 1940's." As a result, compared with the revolutionary literature and art in the 1940's, socialist literature and art in the 1980's has new characteristics and looks in both the ideological content and the artistic style. At present, the entirely new practice of the four modernizations and reform, the great changes in the social life as a whole, the giant strides of modern natural sciences, the historical development of literature and art creation and the literature and art cause as a whole in our country, and the new changes in the aesthetic needs of the masses of people, have not only posed new demands to uphold and apply the system of Mao Zedong Thought on literature and art, but have opened up a vast new field for, and provided great motive force to, its development.

It is predictable that under leadership of the party Central Committee the vast numbers of literature and art workers, in particular the literature and art workers who devote themselves to integrating the upholding and development of the literature and art thinking of Marxism-Leninism and Mao Zedong Thought, must be able to constantly add new levels to the system of Mao Zedong Thought on literature and art, open up new fields, replenish it with new content and make it realize an unprecedented brilliant development with their creative labor during the process of "integrating with the new era of the masses" of today.

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## RENMIN RIBAO ASSESSES WESTERN 'INVASIONS'

HK100740 Beijing RENMIN RIBAO in Chinese 26 Jun 87 p 5

[Article by Qiao Huantian (0829 6703 3944): "What Are the Effects of the invasions of Western Powers on Modern Chinese Society?"]

[Text] Although the social function of history is not like that of economics which can directly influence on current policies, the national economy, and the people's livelihood, it is a repeated phenomenon in the history of intellectual development that people are always engaged in historical studies, looking for one solution or another to meet their actual needs. The reason is quite simple. People are eager to seek inspirations and reference from reflection of history, and to draw lessons from history in the interests of today's society. That is the very reason why many scholars have shifted their interest to the analysis and studies of the history of communications between modern China and foreign countries, while the policy of opening up the outside world is being implemented.

Scholars always concentrate their attention to academic studies and historians always confine their studies on history. A researcher will always air his views based on his own understanding. However, what merits attention is that some researchers have consciously or unconsciously applied the currently prevalent pragmatic view to the evaluation of the relations between China and foreign countries in the 19th Century. Since they have ignored the differences between the two historical periods in social environments and conditions they have put forth some biased views. Just to cite a conspicuous example, some people maintain: "From the viewpoint of world history, the Opium War was a trial of strength between advanced capitalism and declining feudalism. If the fresh air of capitalism had blown earlier into the feudal coffin in which alive people were imprisoned, China's history would have been completely different." However, abstract inference is bound to deviate from historical reality. Studying historical facts one will find that the supporters of this view, in maintaining that the West should have invaded China earlier, have failed to correctly evaluate the effects of capitalist imperialist aggression on the modern Chinese society. therefore, their view is open to question.

Everybody knows, China was not backward before the 15th Century. On the contrary, China was leading other countries in terms of social productivity or in terms of ancient culture and civilization. Even by the mid 18th Century

China still remained one of the most advanced countries in the world. One of the reasons why China lagged behind others after then was because it practiced isolationism and failed to keep up with the tempestuous historical trend of the world. How can China return to the ranks of the advanced countries? One method is to remove barriers, open China's doors to the outside world, and learn from the West which has already entered the stage of capitalism. What is more, since the capitalist world market had taken shape by the 19th Century, it was impossible to set up barriers again and to continue to pursue isolationism. However, it was a pity that the feudalist rulers of China at that time did not want to introduce advanced things from foreign countries but rather held on stubbornly to their old practices. As a result, when Western powers forced open China's doors with their guns, swords, and opium, the Chinese rulers had to reluctantly bear the humiliation of being forced to "open the doors of the country." It was under these circumstances that China bade farewell to yesterday.

To be sure, China was forced to be involved in the capitalist world relations network. But actually was it a good development for a country which had been isolated from the world to break its closed shell in this way? On the surface it was a good thing of China to shift from "isolationism" to an "open-door" policy, notwithstanding the fact that all the countries that China would deal with were modern developed countries which had been the first to accomplish bourgeois industrial revolution in the West. Ultimately, however, these superficial phenomena cannot explain the nature of the issue. The crux of the issue lies in this question: What did the Western powers' forced entry into China actually bring to Chinese society?

In my opinion the remarks that Mao Zedong made in his article "China's Revolution and the Communist Party of China" touched the crux of this issue. He pointed out: In invading China, foreign capitalist countries never wanted to change feudal China into their colony or semi-colony. The history of modern China, which is filled with blood and tears, has shown still more clearly that although Western civilization was full of vigor in many respects at the time, it was more destructive than constructive to China in the 19th century.

The most destructive aspect was the infringement upon China's sovereignty. After the "opening of its doors," that is, after the first Opium War, Western powers that invaded China openly forced the ignorant and muddle-headed Qing government to sign a series of unequal treaties and thus gained various privileges, such as consular jurisdiction, tariffs fixed according to mutual agreements, inland navigational rights, the right to conduct an opium trade, the right to do missionary work in the interior of China, permission to establish plants, build railways, and operate mines, and so on. The acquisition of all these privileges meant the complete loss of China's sovereignty. Let us take consular jurisdiction as an example. With this as a protection, foreigners who committed crimes in China could be exempt from the binding laws enacted by the Chinese government and be tried by consuls or courts of their own countries. It was because of this privilege that modern China became a paradise for adventurers from the West. Since tariffs were to

be fixed according to mutual agreements, Western powers deprived China of its sovereign right to fix tariff rates on its own. According to general practice, the levying of tariffs on imported and exported goods was entirely the affair of a sovereign state. However, the general regulations issued in 1843 governing the opening of the five ports forced on China an extremely low tariff rate for exports and imports and stipulated that this rate would not be changed without the prior approval of the foreign countries concerned. With its sovereignty thus wantonly trampled, it was not up to China but to foreign invaders to decide how large and to whom China's doors were to be opened. Could China benefit from an "open-door" policy like this?

"Opening China's doors" was for the purpose of establishing trade relations with China. This was one of the major reasons cited by those who forced open China's doors. At first sight, normal trade and economic ties between different countries which can help supply each other's needs are undoubtedly beneficial to all parties. However, facts showed that trade between China and foreign countries was conducted on the premise that the invaders wanted to turn China into their supplier of raw materials and the market where they could sell their surplus products, and equal and mutually beneficial trade was simply out of the question. Opium and industrial products poured into China from the Western powers after they forced open China's doors with their guns. After the 1870's, a wide variety of "foreign commodities" such as imported cloth, silk fabric, umbrellas, lamps, and oils, "were sold freely in all open ports and in the interior of China." As for China, silk and tea were its traditional staple exports by the 1870's. After then, farm products and minerals, such as soybeans, tung oil, bristles, tungsten, antimony, and tin became the foreign invaders' objects of plunder. According to statistics, the volume of imports of foreign commodities exceeded 100 million taels of silver in 1887 and increased to 162 million taels of silver by 1894. Meanwhile, China's annual volume of exports was only equivalent to around 78 percent of its imports. Such a continuous unfavorable balance of foreign trade led to huge outflow of silver from China and "deprived many Chinese of their means of livelihood. So the development of China's social productivity was hindered and China's national capitalism could only survive under the great oppression of imperialism and feudalism.

Indemnity paid to foreign countries was another disaster that the Western power forced upon China. According to statistics, from the Opium War to the downfall of the Qing government, the court paid indemnities totalling nearly 1.3 billion taels of silver to foreign countries (including war reparations, opium prices, trade liabilities, interest and other). If this total payment were equally divided by 70 years, then China would have paid a huge indemnity of 18 million taels of silver to foreign countries each year. This surprisingly large amount of indemnities further drained China's financial resources. The Qing government, before the reign of Emperor Tongzhi, might still have been able to pay reparations by raising funds by all possible means. But after that, the government's financial situation went from bad to worse. So it was forced to extort more money from the people and borrow from foreign countries. the Qing court was heavily in debt and had to mortgage customs tariffs, sale taxes, and tobacco and alcohol tax for the loans, so china's finances fell gradually into the hands of foreign countries.

Of course, Western powers' invasions were much more destructive on modern Chinese society than what we have enumerated above. As a journal has pointed out: "Is China not the very focus of contention in the world today? Russia, the United Kingdom, Germany, France, the United States and Japan were all glaring at China like tigers eyeing their prey. Like a pack of wolves baring fangs and brandishing claws, they were ready to spring on the 4,000-year-old-sick lion. They forced the Qing government to cede places of strategic importance and to lease military ports to them so that they could keep China's vital passage under their control. They opened mines and built railways in China in order to plunder the country's major resources. They borrowed and asked for indemnities to exploit the Chinese people. And they forced open the doors of China, established their spheres of influence, and secured great benefits by force or trickery." (HUBEI XUESHENG JIE [Hubei Students], No 2, p 1). This remark aired by people at that time vividly depicted all the disastrous effects that the Western powers' invasions had visited upon modern Chinese society.

Of course, it would not be difficult if one wanted to collect some historical data to show that the foreign capitalist invasion of China had played a role in changing China's general social mode, in introducing the mechanized production process, in providing China with management experience, in spreading science and technology, and in furthering the development of modern industries in China. But, after all, these were not the major effects. We should never overestimate the objective effects of foreign capitalist invasions on China. Otherwise, we will confuse a major aspect with a minor one or even mistake the branch for the root.

In the final analysis, the reason why "Western learning" could serve as a positive factor in promoting the social development of modern China and emerge as a hallmark in China's social progress was mainly due to Chinese initiative in introducing and assimilating knowledge from the West. The history of modern China written with blood and tears has indicated that the Chinese nation is one which has suffered untold tribulations but has in the end withstood them all. Being confronted with powerful enemies that it had never encountered in several thousand years, those Chinese who were awakened clearly realized that China would be bullied by others if it lagged behind them. Whether China could resist foreign invasions and alleviate the harm of foreign invasion completely depended on whether it could make rapid progress, immediately catch up with Western powers, and mend the gap between itself and others in national power. China could no longer pursue the slow suicidal policy of isolation. After close observations of the "national conditions of Western powers" and the world, they put forth a slogan which reflected the needs of the time--"learn Western powers' strong points with the aim of subduing them." (Although China had implemented isolationism for a while before the Opium War, the Chinese people really were not conservative, from a long-term historical perspective. The diplomatic missions of Zhang Qian and Ban Chao to the Western Regions in the Western Han Dynasty, Zheng He's voyages of exploration to the South Sea Islands and the Indian Ocean in the early Ming Dynasty, Xuan Zhuang's trip to India to study Buddhist sutras in the Tang Dynasty, and the arrival of Jesuits in China in the late Ming and early Qing



period--all of these showed that the Chinese people were willing to keep in touch with the outside world.) Many people who were concerned for the motherland's fate took the initiative in plunging themselves in the "Western studies" and introducing and publicizing Western knowledge. They did not waver despite discrimination, cold response, obstructions, and insults from "foreign lords" as well as mockery, attacks, and slander from Chinese feudal intellectuals. At the beginning, they keenly felt that China was inferior to "Western powers" in its quality of machinery and technology. So they just concentrated their attention on the improvement of "weapons." Later on they began to shift their focus to "commercial battles." Finally, they realized that the West's bourgeois social structure, political institutions, theoretical studies, and education were also superior to China's. As a result, they showed an estimable historical consciousness. It was their initiative in introducing "Western learning" that was truly constructive to China in the 19th Century.

Since we are talking about the issue of "subduing Western powers" here, it seems necessary to redress the following erroneous view--"should we ever let our Chinese nation return to the age of slash-and-burn cultivation just to resist foreigners?" Those who hold this view also believe that even if there had been more Lin Zexu-type national heroes in history, they would have been able to achieve nothing more than the postponement of China's acceptance of capitalist civilization. According to their logic, since capitalism was then an advanced civilization, underdeveloped countries could only open their doors and welcome Western powers even though they were invaders. "Resisting Western powers" could only mean opposing civilization, science, and progress. Of course this kind of logic is simply absurd. They must remember that the struggle for national independence was always the theme of modern China's efforts to seek social progress. The Chinese people only opposed alien invaders' plundering, oppression, enslavement, and exploitation. All enlightened Chinese wholeheartedly welcomed the introduction of "Western learning," including natural sciences, productive technology, and the West's social structure, political systems, thoughts on law, and other theories which were advanced at that time. This selective introduction of "Western learning" had absolutely nothing to do with returning to the age of slash-and-burn cultivation. By and large, in interpreting world history with Marxist theory, one should never ignore the legitimate right of the invaded to resist the invader. Therefore, we can never mock those pioneers of democratic revolution for their setbacks and failures. Their struggle was a stage that could not be skipped in China's historical development. We must always bear in mind their contributions to the long term development of the Chinese nation.

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CSO: 4005/851

SONG RENQIONG ADDRESSES OPENING OF YOUTH EDUCATION CENTER

Beijing ZHONGGUO QINGNIAN BAO in Chinese 20 May 87 pp 1-2

["Text" of speech by Song Renqiong [1345 0117 4522], member of the Politburo of the CPC Central Committee, at the opening of the Center for Ideological Education for Youths"; date and place not given]

[Text] Comrades,

The establishment of the Center for Ideological Education for Youths is an immensely significant event. Congratulations! Now that we have this center, we can build up extensive ties with and coordinate the work of all groups and individuals interested in youth ideological education, hold up role models to influence young people, and together engage in youth ideological education research, which will certainly play an important role in strengthening youth ideological education. Nowadays more and more experts, scholars, role models, and people in all quarters are concerned about the healthy development of the younger generation. A large propaganda corps made up of people who are keen on youth work, politically conscious, and widely knowledgeable and who exercise a considerable amount of influence among young people is actively at work on all fronts and in all areas. The creation of the center of youth ideological education today brings together all our forces and signals the coming of age of the corps of youth ideological workers in China. On behalf of the CPC Central Committee, may I take this opportunity to congratulate you, and through you, all comrades in society who are enthusiastic about youth ideological educational work.

You all know that our party struggles for communist ideals. Our cause must be passed on from generation to generation through the ages. In a certain sense, nurturing youths is shaping our own future. Both party and state, therefore, have always taken the education of the younger generation very seriously and concerned themselves with it. Never have the party and society paid more attention to the ideological education of young people than now. This is not just the result of the flood tide of bourgeois liberalization and the student unrest which occurred in some cities late last year. Even more important is that the situation and mission facing China today ask more of our young people and of youth work. It should be stressed that the party consistently maintains that youths today are essentially and predominantly good and trustworthy; they play a crucial part in the current socialist modernization



and are the hope of our nation and our people in the future. In no way can this basic perception be colored however slightly by the problems of some youths. Certainly we must also face up to the failings of young people, pointing them out sternly and responsibly and analyzing them correctly. We should find a way to overcome them and guide and assist the young people enthusiastically. This kind of guidance and assistance assumes even greater importance in this historic age of reform and opening to the outside world. We believe that with a caring party and society, the younger generation will be able to overcome their own weaknesses and develop healthily into useful people capable of shouldering the important assignment history will entrust to them. Nobody who is genuinely solicitous about the future of the nation and the people can remain aloof from the vital issue of nurturing and helping the young people. Accordingly, the CPC Central Committee sincerely hopes that all you comrades here and all organizations and individuals in society at large who are concerned about youth development will consider the motherland's future as your own responsibility, double your interest to make youth work in the age of reform and open door a success, and create even more favorable ideological and material conditions for the next generation. It is hoped that the Center for Ideological Education for Youths will make the Communist Youth League its mainstay, unite and coordinate all forces in society, actively and effectively go about its work, offer sound advice, provide the grassroots with guidance, and set an example for young people.

Youth ideological education is a science. It is an important and glorious mission to strengthen research in this area. To do this job well, I believe we must achieve at least three things. First, firmly adhere to the correct political direction. Second, encourage the practice of relating theories to realities. And third, set an example by practicing what one preaches.

The so-called correct political direction means that as we study youth ideological issues and engage in youth ideological educational work, we must fully and correctly understand and implement the line of the 3d Plenary Session of the 11th CPC Central Committee and consciously uphold the four cardinal principles and the policies of reform and opening to the outside world. Both points must be firmly borne in mind and neither can be dispensed with. Ideological education is part of ideological work. Its first task is to solve problems related to public political stands and political direction. At issue here are clear-cut party principles. The leadership of the CPC, the guidance of Marxism-Leninism and Mao Zedong Thought, socialist direction, and democratic dictatorship by the people--all this is what the republic is founded on. A worker in youth ideological education, whether full- or part-time, should carry on the party's fine tradition in ideological and political work and willingly submit himself to the party's political leadership, and accept the guidance of Marxism-Leninism and Mao Zedong Thought. The goal of youth ideological work should always be to develop and foster a new generation that has ideals and morals and is educated and disciplined. At the same time, youth ideological education should also keep up with the pace of reform, adapt to the new circumstances, address new issues, and continuously explore, improve, and try to do better. Our priority at the moment is to help young people further appreciate the importance, urgency, and difficulty of reform and opening to the outside world even as they conscientiously adhere to the four cardinal principles, and encourage them to take China's realities as

their starting point and, through hard work and practical action, join the party and the entire nation in making positive contributions to reform and the four modernizations. That is the only way to bring youth ideological educational work to a deeper level.

The so-called practice of relating theories to realities means that in youth educational work, we must act in accordance with the objective principles of youth work and ideological education and proceed from young people's actual ideological state and the requirements of building socialism with Chinese characteristics. The present generation of young people differs from its earlier counterparts in the environment they are growing up in and the tasks they face. They also have their own distinctive strengths and weaknesses. Youth ideological education, therefore, must not become hollow preaching or formalism. Instead, it must stress practical results. Toward that end, a major effort must be made to raise the standard of youth ideological educational work. It will not do for us to sit and research in the office all day; we must plunge into the thick of the young people's lives. We must not depend on a few people's studies; instead we should mobilize everybody to take part in research. Nor can we confine ourselves to studying what happened in China in the past; on the contrary, we should orient ourselves toward the world and the future. We cannot content ourselves with research alone; we must closely combine theoretical research with practical work and set aside more time and energies and take the initiative to mingle with the young people to understand their conditions, listen to what they say, study their feelings, and carry out ideological work among them. On the one hand, we must explain the party's profound policies and principles in simple terms and answer all their questions promptly. On the other hand, we must open up a democratic channel to transmit to the higher authorities young people's opinions accurately without delay. Through practice, moreover, we should continue to look for and create even more lively and effective ways of guiding and educating young people that are readily acceptable to them. Dialogue, lecture, discussion, social practice, and introspection, for instance, are very popular among youths and should be strongly promoted. At a time when we are opening China to the outside world, we must guide them persuasively to distinguish right from wrong and truth from falsehood, targeting the influence of some Western social ideas, particularly bourgeois liberalization, and hence assist them to gradually build up the Marxist world outlook and enhance their power to differentiate and resist so that they can consciously withstand the attack by the tide of bourgeois liberalization and other erroneous ideas.

We should set an example by practicing what we preach. By that I mean to ask everybody to take pains to educate young people with your own words and deeds. As experts in youth educational work, you know that the power of example is boundless. The ideology, style, and moral character of an educator exert an imperceptible influence on young people. Those of you here today who have a good deal of influence among the younger generation must especially cherish your history and good name. Only when we make strict demands on ourselves in everything can we win the trust and support of young people and carry out ideological educational work more successfully and effectively.

Comrades, this center of ideological education for youths is a private organization. I hope that under the leadership of the Central Propaganda Department and the central committee of the Communist Youth League, you would take care to preserve the characteristics of private organizations and establish close contacts with young people. You should explore boldly and go ahead confidently. At the same time, you should step up cooperation, take the initiative to create favorable conditions, and safeguard the general interest. I believe that if we all work as one and make full use of our initiative, enthusiasm, and creativity, we will do an even more outstanding job in the future. Many of the comrades here have worked long and hard in the past for the development of the younger generation and remain deeply attached to youths. It is noble work you have been doing. The party, the people, the younger generation, and history are grateful to all of you.

That is all I want to say today. Onward, comrades!

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CSO: 4005/751

THEORIST RU XIN ON OPPOSING BOURGEOIS LIBERALIZATION

Beijing LILUN XINXI BAO in Chinese 18 May 87 p 13

[Article by Ru Xin [3067 0207]: "Pay Attention to Three Issues In the Anti-Bourgeois Liberalization Struggle"]

[Text] I think we must pay attention to the following three issues in the anti-bourgeois liberalization struggle.

First, there must be a comprehensive and correct interpretation of the successive ideological critical movements in the past. Some of them were indeed mistakes and should be corrected. Others, however, were by and large correct. It is just that the methods used were not totally appropriate and that there were some excesses. Yet these movements have been completely negated by people in the name of "bringing order out of chaos." Hence the impression that all that was done in the past was utterly wrong and should be reversed. Take our past criticism of Hu Shih [5170 6624] for instance. It may have been less than thoughtful. It may have been simplistic. But given his longstanding attitude toward the Chinese Revolution and imperialism and in light of the conditions then, it was both necessary and right to criticize him. We are now free to put forward different opinions on some of the specific acts committed at the time, and review experience, but there is no need to publicize him in a major way, either. Or take Lenin's criticism of Plato and Ma He, for instance. There have been moves to reverse the verdict in both cases. The same is true for Confucius. While people at the time went too far, we must not now invalidate everything. Mistakes in the past several ideological critical movements must be rectified; lessons must be learned from the use of wrong methods. On the other hand, whatever is right must be upheld. There must be no blanket negation. To do so would be to go from one extreme to the other.

Second, in educating the masses, we must explore theoretical questions at a higher level, such as the philosophy of life and world outlook, to raise their ideological standard, on the one hand, and conduct mass ideological work by relating these issues to realities and China's specific circumstances, on the other. Some of those people who are skeptical about Marxism actually do not fully understand it. We must rely on the scientific nature of Marxism to convince people. Moreover, Marxism is not just a matter of knowledge, but is also a revolutionary ideal for which we must struggle all our lives. Not only

must we understand Marxism, but we must also believe it, consciously take it as a guide, and struggle for it. This is an even more stringent demand on us.

The third issue has to do with how we treat contemporary Western bourgeois ideological trends. This is a long-term issue. As long as we open to the outside world, we cannot prevent the invasion of Western ideas. In any case, stopping them is not a good solution. We should think long-term and formulate a series of basic measures to solve the problem. One such measure is to emphasize the critical nature of Marxism. The "Communist Manifesto," for example, refers to the "two breaks." With criticism, and after working for a long time, we will achieve a correct understanding of this kind of thing. It is vital that we adhere to our fundamental evaluation of contemporary bourgeois ideology and not deviate from it at all. Although Western capitalist nations today possess advanced science, technology, and management techniques, their ideology is on the wane. Certainly we do not rule out that there may be something sound in their ideology that we can absorb critically. On the whole, however, it represents the interests of a declining bourgeoisie.

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CSO: 4005/800

GONGREN RIBAO CONDEMNS BUREAUCRATISM, OFFICIAL PROTECTION

HK080607 Beijing GONGREN RIBAO in Chinese 26 Jun 87 p 1

[Article by Wen Hai (2429 3189): "Mutual Protection Among Government Officials Is Not Permitted"]

[Text] In the plenary State Council meeting to discuss ways to deal with the huge Daxinganling forest fire, Comrade Wan Li said that bureaucratism is opposite to the party's aim of wholeheartedly serving the people, it must be dealt with severely, and "mutual protection among government officials is not permitted." "Mutual protection among government officials is not permitted" is indeed the key question in whether we can carry on the struggle against bureaucratism. It is a pity that the phenomenon of "mutual protection among government officials" is not completely eliminated in some places and departments and is often heard of. Although few in number, they have an extremely bad influence.

The central authorities and central leading comrades have proposed the antibureaucratism struggle many times. Comrade Deng Xiaoping profoundly pointed out in 1980 that bureaucratism was a widespread problem existing in the party and in our country's political life and that it had reached a stage people could not tolerate. Why is bureaucratism still commonly practiced in some places and departments without receiving the deserved punishment, despite the repeated injunctions from the central authorities? There are probably many reasons, and mutual protection among government officials undoubtedly one of the important reasons.

We can see this phenomenon in our lives: When a person should be punished because of the bureaucratism he practices and the serious results caused, the old leaders and colleagues around him will come out one after another as "Lobbyists" saying that "it is inevitable," "one divides into two," "he has done some good things in the past," "it is different from destroying things intentionally and using authority to get personal gains," "there is an objective reason," and so on. Their statements seem specific, but the results generally end up like this: They leave the matter unsettled. They go through the motions to keep the person safe, or they transfer the person to another place and allow him to keep his title.

Taking a protective and lenient attitude toward bureaucratism makes the leading comrades of some places and departments feel totally at ease with bureaucratism and "completely without anxiety." On the other hand, they are

happy to admit on certain public occasions their practice of bureaucratism, and this kind of admission will bring about some unexpected magical effect. For example, when their subordinates or some socially close comrades commit mistakes in their work, some leading comrades assume the responsibility at once. "This incident has to do with my being bureaucratic; I will assume the major portion of the responsibility." Thus, the responsibility of the comrade who commits the mistake is taken up by another person. In fact, the one who "assumes bureaucratic responsibility" assumes nothing. If a big mistake is committed which must be punished, the ultimate action is to give the one who commits wrongdoing some sort of small punishment. The leaders who have signed names or drawn circles are "only a little bureaucratic," but punishment will never befall them. They still remain "government officials" and continue to sign names and draw circles half-heatedly in their offices.

Now, the central authorities have severely dealt with Yang Zhong. This has set an example for the country in opposing the practice of government officials protecting each other. The various reasons for protecting bureaucratism upheld by officials who protect each other are all in vain now that the central authorities have severely dealt with Yang Zhong. The way the central authorities dealt with Yang Zhong explicitly shows us that the idea that "it is inevitable" cannot save Yang Zhong. This is because for leading cadres whose goal is to serve the people, bureaucratism is not inevitable but must firmly overcome. "One divides into two" also cannot save Yang Zhong. This is because no matter how many achievements a person has in the past he cannot avoid punishment. The person might have other strengths and strong points, but just as we cannot negate his strengths and strong points because of his mistakes, so we cannot negate his faults because of his strength and strong points. the bureaucratism of Yang Zhong has caused great loss to the country and cannot be forgiven on the excuse that it is different from international damage and using one's authority to get personal gains. Yang Zhong can find many objective reasons for his mistake, but subjectively his bureaucratic style cannot be covered by any objective reason. We certainly advocate judging a person from all aspects of his history and identifying the subjective and objective reasons for his mistake so that we can deal with the matter properly and not reduce a big trouble to a small one and a small one to nothing. we hope that officials who protect each other will learn a lesson from the Yang Zhong incident, thoroughly sweep up the fallacies of bureaucratism, and throw it on the rubbish heap.

However, it is not easy to stop officials from protecting each other, because the "official" who protects bureaucratism is himself a bureaucrat. They are in the same boat, and protecting others means protecting themselves. If we cannot hamper bureaucratism, we cannot stop officials from protecting each other. we must have ideological preparation for a long struggle against officials protecting each other. in order to warn officials who protect each other, I think we can set a few regulations. for example, officials who protect each other or practice bureaucratism should bear the same or even heavier punishment. We must deal seriously with officials who protect each other so that they will restrain themselves.

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CSO: 4005/851



REQUIREMENTS FOR DEEPENING REFORM DISCUSSED

Beijing GONGREN RIBAO in Chinese 29 May 87 p 3

[Article by Ye Qiu [0673 4428]: "Reform As Trial and Error"]

[Text] Restructuring the economic system is a novelty that requires the liberation of ideas and bold exploration. We may make mistakes in our exploration (both theoretical and practical). We should review them and press on. It is absolutely un-Marxist to regard and oppose every mistake as bourgeois liberalization.

Surveying the practice of economic structural reform over the past 8 years, we can clearly see that every inch of headway is attributable to the liberation of ideas and active exploration by the people. The road to reform we have trod over the last 8 years and more is exactly the road pioneered and opened up by the people. The production system of contracted responsibility in the rural areas, for instance, was first innovated by the vast numbers of peasants through practice. None of the successful reforms and new policies that materialized during the last few years did not emerge from reviewing and elaborating the good methods, measures, and proposals invented by the masses. In other words, they were the crystallization of active exploration by every participant in reform. In the practice of reform, we smashed past "leftist" ideological shackles and diversified economic forms while insisting that public ownership plays a dominant role. We also worked hard to separate enterprise ownership from enterprise management and broke with the long-held idea that means of production are not commodities. Means of industrial production have begun to circulate as commodities and a market for means of production has gradually begun to take shape. The state has begun easing its grip on formerly over-regulated enterprises and the latter have taken the first steps toward becoming autonomous economic entities. The result is the all-around development of agriculture, industry, commerce, transportation, and scientific and technical services, and the integration of the city with the countryside, while relying on urban centers as the base. A variety of special economic zones and joint economic bodies that operate on different scales and have different characteristics have also come into existence. Because of this fruitful exploration, China's economic system has emerged from its long isolation and fossilization. Both the urban and rural economies are becoming increasingly lively. Multi-channel, multi-level, and multifaceted lateral economic and technical associations between regions and sectors have



multiplied. Thus the ground has been broken for deepening reform in the future. The ample achievements of the people's active exploration over the past 8 years are undeniable.

Since economic structural reform is a revolution in which we follow a path nobody has traveled before, there are no ready-made answers and no set models. Reform is intrinsically a daunting long-term process of exploration. Because economic structural reform covers an extensive area and is extremely complex, and because we lack experience, the entire reform process is like crossing a river by groping for the rocks. If the superficial reform in the past several years has been easy, then the reform we have yet to carry out at a deeper level in the days ahead will be much more difficult. Economic structural reform is an upheaval in the national economy, from the management system to managerial techniques. It shakes up every party's economic rights and interests. Many issues remain to be addressed and resolved both theoretically and practically. For instance, how can enterprise reform produce the necessary differences in earnings so that the worker who works harder is paid more, without resulting in excessive income gaps in violation of the socialist principle of people becoming rich together? How can responsibilities, rights, and interests be integrated without altering the nature of socialist public ownership and leading to circumstances where people benefit themselves at public expense? In the course of administrative simplification and decentralization, the power decentralized is often intercepted by local governments, leaving enterprises little power and little vitality. Local authorities, on the other hand, have become very powerful, while the central government has inadequate financial authority and control. What is to be done? We put administrative departments in charge of enterprises, yet we must also guard against their interfering in the lateral economic associations of enterprises in miscellaneous ways out of self-interests, and strongly support enterprises in developing all manner of lateral economic associations based on their own conditions. How can one be reconciled with the other? The most tricky issue at the moment is to separate ownership from management properly. In other words, how can enterprises really be made responsible for their profits and losses within a framework of socialist public ownership? There is no running away from the many problems outlined above. Then there are numerous other issues accumulated from the past. They all need to be worked out as we deepen reform and press ahead with a pioneering spirit of bold exploration and seeking truth from facts.

Reform is innovation and exploration. There are bound to be mistakes and setbacks. Deepening reform is in line with the trend of the times and meets the needs of the masses. It is where the nation pins its hopes for prosperity and development and, where the people pin their hopes for wealth and happiness. It also determines whether or not we can fully tap the superiority of socialism. Therefore, we must advocate reform, encourage exploration, allow mistakes to be made in the course of reform, and allow exploration to fail. What we should not allow is non-reform and non-exploration. Man is not a god: he cannot know everything in the world and his cognitive capacity is invariably limited by the specific historical circumstances he is in. Objective matters are changing everyday and man finds it hard to fully grasp their internal logic. In the absence of full understanding, he may make mistakes. Had we been deterred by the fear of making mistakes and disallowed

exploration, would the national economy be growing steadily in a sustained way as it does today? It is un-Marxist to refute reform and all exploration just because mistakes may occur. To disallow mistakes is no different from blocking the path of reform. Lenin said, "We must learn to do new and extraordinarily difficult things again and again, starting from ground zero. We must fail at the beginning, but we should begin anew. It matters not if we repeat this 10 times, but we must achieve our goal." People committed to reform should brace up, liberate their thinking, explore boldly, and come up with wonderful new achievements as they take reform to a deeper level.

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REFORMIST FACTORY DIRECTOR RISES AFTER SETBACKS

HK090912 Beijing RENMIN RIBAO in Chinese 5 Jul 87 p 2

[Article by RENMIN RIBAO reporter Jiang Shaogao (3068 4801 7550): "Rising After a Defeat--Notes on the Past Year After Song Beifang Returns to the Factory")]

[Excerpts] After a year, Song Beifang, a reform activist, resumed his post at Zhengzhou Rolling Stock Plant on 13 June 1987.

How did Song Beifang spend the year? What changes took place in the rolling stock plant? This reporter came to the plant in mid June. But for some grey hair Song Beifang looked energetic as usual. He said: "Without reform there will be no way out for the rolling stock plant and me."

"Reform and delegation of power developed the productive forces of the rolling stock plant and brought joy and hope to the workers. At a plant meeting, I realized that Song Beifang had something embarrassing to mention. I found out from indirect sources that the decision of the Zhengzhou City Party Committee on handling the question concerning Song Beifang was not thoroughly implemented due to various reasons, and there were knotty problems between the higher and lower levels...."

"After all,, the rolling stock plant had done a lot. Song Beifang worked busily from morning to night. The workers of the plant said that Song devoted himself to the plant without any thought of his family affairs. Song Beifang's response was: It is my cherished desire to organize the workers and develop production and operation of the plant."

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CSO: 4005/851

## REFORM COMMISSION AFFIRMS SHIJIAZHUANG MARKET

HK160327 Beijing RENMIN RIBAO in Chinese 15 Jul 87 p 2

[Report: "Vice Minister of State Commission for Restructuring Economic System Speaks Highly of Shijiazhuang City's Experience in Setting up Capital Goods Markets"]

[Text] Comrade He Guanghui, vice minister of the State Commission for Restructuring Economic System, recently made a speech, highlighting Shijiazhuang City's experience in running a market for capital goods, and pointing out that this is an important part of economic structure reform and that reform of the material supplying system should be carried on firmly.

The government work report delivered by Premier Zhao Ziyang at the Fifth Session of the Sixth NPC mentioned that localities which have the necessary conditions can gradually introduce the experience of Shijiazhuang and other places in running capital goods markets. He Guanghui said that Shijiazhuang's experience is valuable because the running of the capital goods market serves the purpose of "creating a favorable condition for invigorating the enterprises," and this is a correct guiding principle. He said that enterprises which supply production materials should do their best and use all possible means to serve the productive enterprises, and the running of this market represents a correct orientation. With the mayor personally handling affairs concerning the running of the market, all relevant departments also turn on the "green light" and make concerted efforts and contributions to the development of the capital goods market. This shows that they have taken a solid and significant step in the course of developing the socialist commodity economy and in the transition period in which both the old and new systems exist, and function together under the present conditions that the supply of major capital goods is subject to a "double-track" pricing system that includes both the state official prices and the negotiable market prices.

He said: Shijiazhuang City has taken a major step ahead of other localities in exploring the way to run the capital goods market, and other localities should also make similar efforts to establish an open and unified socialist market under the guidance of state plans. In our country, a new structure for the distribution of capital goods will be established, which will be based mainly on direct dealings between the producer and the user enterprises, and will include the trade of future, spot transactions, wholesale markets, and

retained markets. Then, our productive enterprises will be able to "swim" vigorously in this sea of markets.

He Guanghui said: A new thing cannot be perfect at the beginning; similarly, Shijiazhuang's experience cannot said to be flawless, and it certainly has some limitations. The practice in Shijiazhuang is merely an effective transition form under the "double-track system" and its defects and imperfections should be overcome and improved in the reform practice. However, he believed, Shijiazhuang and other localities will certainly make further advances in developing their capital goods markets and will create new experience and make new achievements through continuous explorations and practice.

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CSO: 4006/816

## JINGJI RIBAO NEGATES STIMULATING DEMAND

HK050540 Beijing JINGJI RIBAO in Chinese 20 Jun 87 p 3

[Article by Chen Dongqi (7115 2639 3825): "The Macroeconomic Policy of Stimulating Total Demand Is not Suitable for China's Reality"]

[Excerpts] Whether to adopt the measure of inflation to stimulate total demand and a macroeconomic policy to push forward high-speed growth or to implement control of monetary supply to avoid inflation and a macroeconomic policy to create a relatively relaxed climate for reform is an important issue during the period of reform.

A correct choice is determined by a correct estimation of the situation: China is in the initial stage of socialism. Is the present economy one with total supply falling short and a surplus in total demand, or one with total demand falling short and a surplus in the total supply? One notion of late seems to be rather fashionable: Regarding the short-term macroeconomic operation, China's present-phase economy belongs to a category of effective demand falling short; therefore, the chief target of the macroeconomic policy should be one of relaxing credit controls, to stimulate investment and consumption with a measure of appropriate inflation in the belief that checking the total demand will check production development; while boosting total demand will give rise to economic expansion. We hold the view that this is practically the concept of Keynesian economics, which cannot be adopted to guide the economic development and economic reform in the initial stage of socialism in China. This is because, if the Keynesian method is effective at all, it is true only in regard to the developed capitalist industrial countries, in which effective demand is universally on the short side, but it has no relevance to the economy characterized by scarcity in the initial stage of socialism.

In the initial stage of socialism, the pressure of inflation led by thriving demand is an objective existence. When price-freezing measures are implemented, such pressure takes the forms of rationing, "compulsive makeshift," and "queuing" in concealed forms of inflation. When prices are relaxed or when the market is open, such a concealed form of inflation will inevitably turn into open price soaring. Under such circumstances, if demand is deliberately stimulated and induced, it will give rise to high inflation, exceeding the bearing capability of the economic system. Practice since the

founding of the PRC has proved that in an economy in which supply is relatively falling short, the adoption of a policy stimulating demand would not only aggravate scarcity and intensify the buyer's market, but lead to alternation between "relaxation" and "constriction" in macrocontrol: first it would be accelerated development, "running" in top speed, then a sudden contraction, deceleration, reduction in investment and cutback in construction projects would follow. Such a tense tendency in the market and the alternation between "relaxation" and "constriction" in control will endanger reform.

At present, the momentum of the total demand exceeding the total supply has not been basically changed, and the expansion in demand has not been basically eliminated; this is very unfavorable to continuously pushing forward reform and the steady development of the socialist economy. Under such a condition, the proposal of the Central Authorities on "compression" is wise. Hopefully, such a practice will create a rather relaxed climate for the second-step reform.

Of course it is necessary to correspondingly increase the volume of monetary supply to meet the rational growth in monetary demand in order to guarantee the appropriate economic growth of scarce natural resources, to readjust the distorted price system step by step, and to promote the original semi-natural economy to gradually change into commodity and monetary economy. However, by no means does it mean relaxing control, and taking a laissez-faire attitude regarding the growth of total demand of the whole of society exceeding that of the total supply of the whole of society. This is because some reforms of key significance cannot be carried out smoothly in a state of scarcity and inflation. To retain necessary material reserves for reform, when some of the decision-making power on investment and prices is delegated to the market and microeconomic units, it is necessary to consciously prevent an excessing growth rate, to strictly control monetary circulation, to keep investment under control, to avoid increasing wages and bonuses by a wide margin, and to adopt the principle of controlling the total volume to create a comparatively relaxed atmosphere in which "the state has some surplus in its hands."

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CSO: 4006/816

## RENMIN RIBAO ON SOCIALIST STOCKHOLDING SYSTEM

HK171002 Beijing RENMIN RIBAO in Chinese 3 Jul 87 p 5

[Article by Yang Qixian (2799 0796 0341): "The Nature and Role of the Stockholding System Under the Socialist Conditions"--passages within slantlines published in boldface]

[Text] Can the state-run enterprises adopt a pattern stockholding system under current socialist conditions in our country? At present, people have different opinions about this issue. This is mainly because during a discussion not long ago some comrades improperly attributed the reform of the stockholding system in state-run enterprises to the reform of the nature of enterprise ownership and proposed the so-called popularization of the stockholding system. Therefore, people readily asked this question: In the future, should the principle of making the national economy occupy a predominant position on the basis of public ownership which is one of the fundamental signs of the socialist economy still be upheld in the reform of our country? Would the implementation of a stockholding system in enterprises "dissolve" the existing economy under the ownership by the whole people? Some other comrades also overemphasized the advantages of implementing stockholding system and claimed that through becoming stockholders individual staff members and workers could gain substantial interest. Besides, during the process of experimenting with the stockholding system, a few units wrongly gratuitously appropriated some state-owned funds to collectives and individual staff members and workers as their stocks. Inevitably, people worry about whether implementing a stockholding system in enterprises will generally change state ownership into collective ownership and public ownership into private ownership and therefore weaken or even fundamentally damage the powerful economic basis of socialism. Meanwhile, in conducting the financial structural reform on a trial basis, in order to gradually promote the development of a capital market, a few cities have begun to set up security fairs and allow stocks (which in fact are mostly bonds and debentures) of some enterprises to be traded on the market through examination and approval. This practice also readily makes people wonder whether the phenomena of a small handful of people specializing in buying and selling for naught, engaging in speculations, jacking up the prices, and reaping staggering profits, like in Shanghai before the liberation will be restaged in socialist new China. Therefore, the suggestion to reform the stockholding system in our country's enterprises has naturally caused people's various apprehensions. This is completely understandable as well as very rational.



However, if we make a comprehensive and serious analysis we can readily discover that the above-mentioned viewpoints and problems which possibly might crop up cannot negate the stockholding system and are absolutely not the inevitable results implementing a stockholding system. If we can correctly handle various relations and in a down-to-earth manner make all the necessary preparations well, these problems which might crop up can be completely or basically resolved.

First, people should clearly understand that implementing a stockholding system in the state-run enterprises in our country is not a change in the nature of the enterprise ownership but a reform of the operational pattern on the premise of upholding public ownership, or a pattern of realizing public ownership. This is because even after an enterprise adopts the stockholding system, as long as it does not consciously change from public ownership to private ownership (which should be strictly forbidden), the previously publicly owned property should be completely converted into publicly owned stocks. Therefore, it will not affect the nature of the public ownership of enterprises. Meanwhile, since the stock holding system is only an operational pattern of enterprises, enterprises can also respectively choose the other operational patterns like the leasing and contracting systems and others in light of their own situations. Therefore, the so-called "popularization" of the stockholding system will not be realized. In fact, there is not yet a single precedent of an enterprise being all organized with a stockholding system in any country in the world, including the countries in which the stockholding system is most developed.

Second, to implement a stockholding system, under given conditions enterprises can issue their stocks. Therefore, an enterprise which was previously wholly owned by the state might be owned by the stocks of the state, collectives, and individuals, or "a jointly-run enterprise under different systems." As long as the method is correct it is not fearful at all. The correct method should be that the collective stocks of enterprises and the individual stocks of staff members and workers can be the only increased parts of the assets. In other words, these stocks must be purchased by collectives and individuals with new funds, rather than being obtained through selling some of the assets previously owned by the state. In view of the present situation in our country, the amounts of state-owned assets are generally very large and the income level and investment capability of staff members and workers are relatively low. Therefore, even after individual staff members and workers have obtained some of the stocks, they can only play a kind of secondary supplementary role and cannot affect the absolute predominance of public ownership in enterprises. Meanwhile, regarding the interests and bonuses of the stocks of individual workers and staff members, on the one hand we should mete out appropriate preferential treatments, but on the other hand we should also exercise necessary restrictions. Moreover, we should make it clear in advance that although the stockholders might get more income, they also have to undertake certain risks and prohibit enterprises from issuing those individual stocks which have only rights and interests but undertake no risks.

Third, to implement the stockholding system it is imperative to gradually set up and open some security trade fairs and allow an extremely small number of enterprises possessing the right conditions to buy and sell stocks. Nevertheless, we must strengthen the management of security organizations. Only a small number of enterprises with a good and effective financial standing and strong influences can be allowed to buy and sell their stocks through stringent investigation and permission procedures. However, most enterprises practicing the stockholding system should raise their funds mainly through the shareholding system and should not be allowed to trade in securities markets. Meanwhile, it is necessary to enact and perfect a set of laws and regulations which are conducive to carrying out the normal transactions of stocks as well as to prohibit illegal speculation, to make securities markets primarily become highly efficient departments which can effectively gather construction funds and guide the circulation of social funds according to the needs of the state and the indispensable and important financial places which can promote the rational flow and use of enterprises' fund, rather than the places allowing all kinds of speculation. Therefore, we can minimize the possible side effects of stock dealings.

Judging from the history of the economic development of all countries in the world, we notice that the organizational patterns of a stockholding system in enterprises generally develop in a gradual way along with the development of socialized and modernized mass production and do not emerge accidentally. Through the stockholding system we cannot only better surmount the difficulties caused by the great demands for enterprise development funds and the small investment capability of individuals under the conditions of socialized mass production and solve the contradictions between the unlimited risks in enterprise operations and the limited funds of enterprises (referring to most of the numerous limited companies), but also differentiate and handle in a better way the relations of rights and interests between the numerous investors in large enterprises. Therefore, we should affirm that the stockholding system is a better enterprise organizational pattern. As long as we develop the commodity economy, compensate for the use of funds and expand lateral economic ties between enterprises, regions, and departments, we can adopt the stockholding system under given conditions. Notwithstanding that this organizational pattern of enterprises first originated from capitalist countries, just as all the other advanced operational and management methods reflecting the laws of modern socialized production, it can be completely absorbed and references drawn there from under our socialist conditions. Especially in some large and medium-size state-run enterprises, economic combinations, and enterprise groups, if we properly promote the operational pattern of the stock-holding system in a planned and gradual way we cannot only better consolidate and perfect the economic basis of the system of ownership by the whole people in our country but also possibly overcome many malpractices of the previously ossified operational pattern of state-run enterprises and accomplish the following good results.

/First, the state can better accumulate construction funds and accelerate socialist economic development./ The insufficiency of construction funds is a longstanding and outstanding problem in the socialist economic development in

our country. In particular, after the reform over the last few years the proportion of state budgetary revenues in national income has become smaller and the funds which can be directly appropriated for construction limited, with the exception of various administrative, operational, and defense expenditures. Therefore, this problem must be resolved by gradually raising more social funds. As the retained profits of enterprises have rapidly increased over the last few years, the funds at the disposal of localities are constantly expanding. Besides, as the incomes of local people have also increased by a large margin and the surplus funds or funds which can be set aside for consumption have gradually increased, this method of raising construction funds is objectively possible. By effecting the stockholding system in an enterprise the funds needed by old enterprises for making replacements and technical innovations and some of the funds for newly built enterprises can be raised from society through issuing stocks to greatly relieve financial difficulties. In order to continue to maintain the predominance of public ownership in enterprises, the state should explicitly stipulate that if state-owned stocks, including stocks held by financial and local departments, banks, and other state-owned enterprises have exceeded one-half of an enterprise's stocks, this enterprise should be regarded as a state-owned enterprise, its general director and manager should be appointed by the state, and the state should have the right to make final decisions on important issues. Therefore, it will not only not violate the principle of basing the socialist economy on public ownership but will also better strengthen the vitality and pressure of enterprises and effectively promote the perfection and development of the economy of public ownership.

/Second, it is conducive to overcoming the malpractice of mixing up the functions of enterprises and government and realizing the separation of the right of ownership from the right of operations of enterprises./ After the stockholding system is implemented, a state-owned enterprise will no longer be an enterprise directly affiliated to a certain department or region. Because its stocks are publicly owned, no department or region has the right to directly interfere with and direct its activities. They can only send their respective representatives to jointly form a board of directors or similar organizations responsible for making decisions on important principles and development plans and strategies of the enterprise, recruiting or electing general managers, and directing daily production and operations of the enterprises. Moreover, general managers should only be responsible to the board of directors and not to a certain department or region. Therefore, the longstanding issue of mixing the functions of enterprises and government can be resolved and the right of ownership and the right of operations can also be separated as a matter of course. Since most or the majority of an enterprise's stocks belong to the state, the state can still play a leading role. Nevertheless, this kind of leadership is not directly realized through issuing administrative orders but through the participation of the state-owned stocks and the regulative means of the economy, laws, etc. to correctly mobilize nongovernmental funds to participate in national construction, effectively divert social funds to flow toward macroeconomic needs, and improve the social effects of the use of funds.

/It is conducive to further invigorating state-run enterprises and truly realizing independent management and their assuming sole responsibility for profits and losses./ Although the state has worked out various regulations with regard to the decisionmaking powers of enterprises in production and operation, these regulations are generally not well enforced. In tracing its causes we find that first, the functions of government organs have not yet been changed and they generally do not want to delegate their powers to enterprises; and second, responsible departments fear that they will affect the interests of the state, so they do not dare to delegate powers to enterprises. Under present conditions, the interests of the state, enterprises and staff members and workers have not been very well integrated and the immediate interests of staff and workers and the long-term interests of the state are not very well coordinated yet. If enterprises are given too many powers the immediate and long-term interests of the state might be neglected. After implementing the stockholding system, since an enterprise is owned predominantly by the stocks of the state and by some collective stocks of enterprises and individual stocks of staff members and workers, it can effectively closely integrate the interests of all three sides. Because if one gains, they all gain and if one loses, they all lose, so we can better urge enterprises and staff members and workers to consciously act according to the common demands of the three sides to strive to do well production and operations, strengthen management, and as much as possible enhance the effectiveness of the whole enterprise. Meanwhile, after the stockholding system is implemented, because the right of ownership of an enterprise does not belong to a certain department or region any more, no department or region can directly receive all the profits of the enterprise or singly bear its losses. In addition to paying taxes according to regulations, enterprises should distribute bonuses to stockholders after making profits as well as make them responsible for suffering losses. This is conducive to truly assuming sole responsibility for profits and losses.

/Fourth, it is advantageous in removing barriers between departments and regions and promoting the transdepartmental and transregional development of enterprise groups./ Over a long period of time, the establishment and management of our enterprises were conducted according to the administrative systems of departments and regions, which not only resulted in the general departmental separations and regional barriers but also caused many repeated constructions and waste, thus affecting the mobilization of the strong points of respective departments and regions, dividing the unified socialist market, and hindering the development of the advantages of the socialist economic system. Through the reform of the stockholding system in enterprises, we can urge all regions, departments, and enterprises to make cross-investments according to their own needs and capabilities, as well as emphasizing the development of strong points and avoiding the use of weak points and voluntary participation and mutual benefits, or converting the techniques transferred and materials provided, and others into stocks, and then distribute profits and products according to the number of stocks to avoid the malpractice of everyone trying to build up their own systems, aiming to be large and comprehensive or small and comprehensive, trying not to seek assistance from outside in doing everything. Moreover, we can promote the development of

enterprise groups and the rationalization of the organizational structure and regional distribution of enterprises and greatly increase the social effectiveness of economic construction. Meanwhile, through the stockholding system we can make thousands of medium-size and small enterprises form a small number of large and competitive enterprise groups around key enterprises and famous-brand products. Thus, we can better streamline the state economic management organs at all levels and reduce management levels. This method can change the relationship between departments and enterprises from one which focuses on sharing money and materials to one which focuses on facilitating management in line with appropriate trades and change the relationship between localities and enterprises from one which is of a direct administrative affiliation to one which makes them register and pay taxes according to regulations, to fundamentally change the economic management functions of government organs at all levels and gradually provide the state with the necessary organizational conditions to change from direct management to indirect management.

It should be clarified that affirming the status and role of the stockholding system under the socialist conditions in our country does not mean that it can be generally popularized in the current economic reform in our country all at once. To truly implement the stockholding system there must be at least three conditions: First, we must legislate a series of economic laws, such as the joint-stock company law, the security management law, the stock law, the enterprise bankruptcy law, and others, to ensure the smooth implementation of the stockholding system.

These laws are still being studied and enacted. Second, it is necessary to acquire experiences to explicitly organize and develop the enterprises implementing the stockholding system. Basically, our vast number of cadres and masses are not familiar with these experiences which need to be gradually worked out and summarized. Third, we need a large number of entrepreneurs who know the laws governing the commodity economy and dare to explore and create new things and are good at business management to be members of the board of directors and general managers of enterprises that are implementing the stockholding system. They should be trained and cultivated in a gradual way. If we do not consider these conditions but blindly and extensively popularize the stockholding system, we might fail and ruin the reputation of the stockholding system. Just like taking an old path in new shoes and putting old wine in new bottles, as we have organized the administrative companies before, it would only result in haste making waste and things going awry. Therefore, to implement the stockholding system at present we must first choose individual enterprises, in particular those newly-built and jointly-run enterprises, and conduct experiments within a small scope through permission and on the premise of not changing the predominance of the public system. However, in the aspect of theoretical study, we should encourage the exploration and contention of views.

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CSO: 4006/816



## HONGQI ECONOMIST ON ENTERPRISE WAGE REFORM

HK200810 Beijing JINGJI YANJIU in Chinese No 4, 20 Apr 87 pp 56-60

[Article by Chan Xiaomei (7115 0897 2734) of the HONGQI Economic Office:  
"Thoughts on Wage Reform in Enterprises"--written in December 1986]

[Text] Income distribution is an important issue which concerns everyone's economic benefits. It is characterized by strong sensitivity, wide relationships, and poor reversibility. It plays an important role in promoting production, reassuring the people, and ensuring social stability. Thus, it deserves a high degree of attention. At present, within the whole scope of income distribution, the focal point as well as the difficult point of reform, is the reform of the wage system of whole-people ownership enterprises.

I. A Probe Into the Objective Model of Wage Reform in Enterprises

The choice of a wage model for enterprises is determined by the choice of the objective model of the whole economic system. The wage reform in enterprises mainly concerns two aspects. One is the changes in the system and in the form of personal income distribution within enterprises. Another aspect is the type of macroeconomic control principles and methods that the state adopts to deal with enterprises staff and workers' income to handle well the distribution relationship between the state and enterprises. The former solves the question of how far an enterprise can go in making its own decision on distribution within the enterprises. The latter determines the size of the "cage" in which an enterprise can conduct its own activities. When we are deciding the objective model of wage reform in enterprises, we must match the contents of the above two aspects with the reform of the whole economic system and make them suit each other. Thus we must link wage reform comprehensively with the reform of the microeconomic mechanism, and meet the needs of an absolute majority of enterprises which assume sole responsibility for their profits and losses. At the same time, the target of transforming macroeconomic management from direct control to indirect control should also be reached.

The right of an enterprise to make its own decisions in operations, including substantial flexibility and independence in making decisions on income distribution, is the precondition for an enterprise to be responsible for its profits and losses. At the same time, the increase in the staff and workers

benefits should be related, to a certain extent, to the performance of the enterprise. Otherwise, the staff and workers will not really feel concerned about the operation of the enterprise. In order to invigorate enterprises, we should learn the technique of how to use the wage lever to arouse the enthusiasm of the masses of staff and workers. Under the situation in which enterprises assume sole responsibility for profits and losses, we should no longer adhere to the practice in which the state controls wage distribution while enterprises can only distribute bonuses. A bonus is not the main form which reflects the principle of distribution according to labor. If the system of the "big communal pot" is still being employed in wage distribution, enterprises cannot assume sole responsibility for profits and losses. The form and the system of wages which an enterprise adopts should be decided by, and based on the situation of, the enterprise. In short, enterprises should have the right to make their own decisions on the distribution of staff and workers' income.

Up to now, the state in general had adopted three forms of management to control enterprise wages: 1) Direct control. Everything is decided by the state; 2) The portion of basic wages is still decided by the state, and at the same time the state also adopts bonus tax controls; 3) Wage regulatory tax control. This is only applicable to "articulated" experimentally-reformed enterprises. The third form is apparently more suitable for invigorating enterprises, and for developing the commodity economy. Its good points are that it can bring the motivating functions of wages into full play, and can increase the pressure and incentives of enterprises and the staff and workers. In the macroeconomic aspect it can also use the wage lever more frequently, and let the state begin to step forward toward the target of indirect control over enterprises. However, can this be the final method by which the state can control enterprises? In the long-run, even though fair competitive conditions have been formed outside enterprises, when departments in charge of labor use the individual situation of each enterprise to determine the proportion of "articulation," and levy wage regulatory taxes on enterprises, problems--such as too much administrative interference, too much bargaining between enterprises and the state, and the enterprises "reserving a hand" in production--will arise which are inconsistent with the overall requirements of the reform of the economic system. Therefore, the method of wage regulatory tax controls, which is based on "articulation," is not a long-term solution. The macroeconomic indirect control method which fits the ultimate model of wage reform in enterprises should be the method used to the personal income of staff and workers. Its superiority lies in the following: 1) The state no longer has to use noneconomic management methods to examine and control the total wage value of every enterprise. This is favorable in realizing the separation of the functions of the state from those of enterprises, and in liberating the labor department from trivial routine management work. They can then concentrate their energy in managing the formulation, implementation, inspection and coordination of the overall direction of administrative policies. 2) Enterprises can use their economic benefits to decide the volume and the method of allocation of the personal income of staff and workers. The staff and workers will not "reserve a hand" in production for the purpose of evading the wage regulatory tax, and the enthusiasm of staff and workers will



be higher. In the meantime the difference in the wages of staff and workers between different enterprises can really be widened. Since enterprises will feel the pressure of having the sole responsibility for profits and losses and also the pressure of bankruptcy, in general they will pay attention to better handling the relationship between internal accumulation and internal consumption. 3) The state can adjust the personal income tax rate flexibly and can fully use the tax lever to regulate the distribution relationship among the staff and workers of different enterprises, and among different sectors of the members of the society, so that an excessively large gap between the highest income level and the lowest income level can be prevented.

Summarizing the above-mentioned points, the essence of the objective model of wage reform in enterprises is that enterprises have considerable rights to make their own decisions on income distribution within the enterprise. The income gap among enterprises can also be pulled apart at a moderate degree and the state can use the indirect management method of personal income taxation to regulate various types of distribution relationships and to control the problem of overallocating personal consumption funds. In doing this the functions of primary distribution and redistribution of personal consumption funds can be separated and thus enterprises and the state will become individual main bodies which carry out different duties, and the macroeconomic control and invigoration of enterprises can be combined in an organized way. This is also advantageous to better handling the contradiction between an increase in production efficiency and implementing the principle of fair distribution, and in this way advanced enterprises and their staff and workers can be encouraged. Backward enterprises, can thus only increase the income of their staff and workers by improving their management, and then these enterprises' psychology of unhealthy vying will be appropriately minimized. This income distribution policy will definitely promote the development of the national economy and the steady increase in the living standard of the people. Of course, its applicable objects are mainly the common enterprises which can really assume responsibility for profits and losses. A small number of large and medium-size key enterprises and public undertakings which affect the national economy and the people's livelihood have to employ a separate income distribution policy.

The timing of when the objective model of the wages of enterprises can be realized is determined by the process of the reform of the whole economic system. It may perhaps need at least 10 to 20 years. At present we cannot stipulate a detailed method of how to bring the reform a step forward. However, we should have in mind an idea of how far we can step forward. With the target to forge ahead and based on the current situation, we can more or less predict that the wage reform of enterprises at least has to experience the following three stages: The first stage is that the present situation is basically maintained and the state continues to use wage fund controls and above-quota bonus taxation. At the same time, it further carries out with effort the experimental task of "articulation" to explore various ways of "articulation." It also tries to divide enterprises into different types according to their nature, and to regulate the income distribution method for the next step of the wage reform. At the second stage, linking the total

value of wages with the economic benefits of enterprises should be widely promoted, and different wage regulatory tax rates should be levied on different enterprises. Although "articulation" is not a long-term solution, it is a transitional model which should be adopted since we cannot directly adopt the method of personal income taxation. At the third stage, the state adopts personal income taxation to regulate wage relations to really widen, in primary distribution, the wage gap between staff and workers of different enterprises. In addition to this situation and since enterprises have already had considerable authority to make their own decisions within the enterprise, the targets of wage reform in enterprises are basically realized at this stage.

## II. The Comprehensive Coordination of Wage Reform

1. The relationship between wage reform and price reform is very close. The progress and results of wage reform in enterprises, to a certain extent, are determined by the results of price reform. When prices are not economically rational, the economic benefits of enterprises cannot be evaluated in a prices way, and the income of staff and workers cannot be truly related to the achievements of enterprises. On the other hand, among enterprises' products, the greater the proportion of floating prices, particularly market prices, in the price structure of enterprises' products, the greater enterprises' management autonomy and competition pressure will be, and the higher the degree of enterprises' sole responsibility for profits and losses will be. Moreover, the proportion of staff and workers' income which follow the fluctuation of the results of the enterprises will also be greater. However, when the fixed portion of the price structure is greater, the situation will be just the opposite. The same situation will also result when there are too many mandatory plans for enterprises to fulfill. In short, a smooth and reasonable price relationship is advantageous to the early formation of a market system. This relationship also helps in promoting the wage reform step by step, and in realizing the ultimate targets.

It is very important to handle well the relationship between a rise in prices and an increase in wages. In recent years we have mainly used wage subsidies to compensate for an increase in the price of consumer goods. However, it is reflected in various parts of the country that the wage subsidies cannot really compensate for an increase in price. Thus, in practice, enterprises tend to compensate for an increase in price. In 1985, the coordinated wage reform was carried out. Under this reform program, while the staff and workers' skills and techniques had basically not been evaluated, they were either promoted to a higher position by one rank, or their wages were increased by one point. This practice makes the wage scale diverge from the actual results of labor and thus affects the implementation of the principle of distribution according to labor. Many people consider that this kind of promotion is characteristic of a price subsidy. It is better to include price subsidies directly and in a clear-cut way, into the wage standard or to link the price index with wages. Thus, wage increases can break away from the influences of price increases, and the principle of distribution according to labor can also be implemented thoroughly. At present, those comrades who

object to the method of linking prices with wages worry that it will induce inflation, and at the same time that it will also put enterprises' operations in a passive position since prices will not only rise but will also fall, and wages will be rigid. It implies that the question of how to handle the relationship between prices and wages has to be studied seriously and solved. Otherwise, undesirable effects on the people's psychology as well as on the functioning of the wage lever will result. Reality proves that our insistence that an increase in wages must be faster than an increase in prices is a correct opinion. However, from now on we should separate the actual increase in subsidies from the actual increase in wages, and not mix them together.

2. There is a direct relationship between the wage reform and the labor system, and between the wage reform and the reform of the social insurance system. The reform of the labor system and the social insurance system is the precondition to accelerate labor mobility which in turn is the precondition to reasonably coordinate and to install important labor factors. However, under different conditions, even though a new labor system and a new social insurance system have been established, their influences on wage distribution will be different. In the Soviet Union, Hungary, and even in Yugoslavia, although the free mobility of labor is already allowed, it has not yet had decisive effects on the wage level, and a real labor market has also not yet been formed. This is because wages are not mainly determined by the market supply and demand, and it is not the price of labor. In our country, some people advocate that the dominant role of job competition should be brought into full play, the labor market should be opened, and the continual increase in wages should be suppressed. This is a new line of thought. Although this method will bring advantages in economic operations, will it also bring serious unemployment when the wage level is determined by the supply of and the demand for labor or by the competition among workers, and when there is a huge population? Can we endure this result under current economic and political conditions? Besides, is the practice of forcing down wages through competition among workers consistent with the internal requirements of public ownership? These questions have to be studied.

From the historical point of view, our country's wage reform can only be started from the present foundation. It takes a very long process to form a perfect market system. In a considerably long period, we still have to adopt the method of planned recruitment and still have to maintain a unified wage system. However, we have to face squarely the existence and the development of a partial labor market, and the situation where the market mechanism has already had great influence on the wage level of some sectors of the economy as well as on some types of production work. Since different forms of ownership exist, the differences in income will, at a great degree, induce labor mobility. Therefore, the practice which pays attention to, and uses the effects and the influences of the market mechanism on wages, and best uses the situation in guiding action, should be taken as one of the duties of the state in conducting macroeconomic control over personal consumption funds.

3. There exists an inseparable relationship between the ownership of capital goods and the distribution of personal consumer goods. Under the conditions

of socialism, any changes and readjustments in the forms and in the contents of ownership will influence income distribution at various degrees. At the present stage, due to differences in scale, technology and products of enterprises, the positions of different enterprises in the whole national economy will be different, and inside the whole-people ownership economy there also exists objectively, different levels of management. Some comrades divide whole-people ownership enterprises into three types--direct state control, semi-direct control, and indirect control. They suggest that the state should treat them differently in wage policy and should adopt different control methods in linking enterprises total value of wages with enterprises' economic results at different degrees. In the practical sense, this suggestion can be put into practice since there objectively exists a situation in which different types of enterprises are affected by the market mechanism at different degrees in the process of the transformation of the economic system. For the so-called "competitive" enterprises which are affected by the market mechanism, the state should allow a greater proportion of the income of staff and workers of these enterprises to follow the fluctuation of the enterprises' economic results. The state should set a higher initial tax bracket of wage regulatory taxes or bonus taxes since this type of enterprise incurs greater risks in operations.

Another opinion considers that the reason why some East European countries which have never solved the problem of how to control consumption expansion during the process of economic reform is that property relations have not been handled well. Therefore, we should through implementing of the shareholding system, set up a type of benefit equalization or similar mechanism inside enterprises, and suppress the pursuit of profit maximization. This opinion deserves attention. The present problem is how to deepen this study and how to introduce practical and concrete measures. The results of the shareholding system can be evaluated through trial points. It will not work if it depends only on assumption and deduction.

4. Whether the income distribution policy of the state can be implemented or not, to a great degree, is determined by the reform of the tax system and the level of management. Each step of the wage system reform of enterprises requires an appropriate tax system and an appropriate level of management to support it. At various stages of the wage reform, taxation will take the forms of bonus taxes, wage regulatory taxes and personal income taxes in that sequential order. The tax department will implement indirect regulations and control for tax personal incomes. Its scope of control is gradually expanded and the degree and depth of the difficulties of management will also be increased continuously. This requires the tax system to be appropriately reformed. It also requires a team of rigid taxation cadres who have the knowledge, understand their job duties, work according to policies, and are disciplined, to be set up gradually. With the deepening of the reform of the economic system, the next step of the wage reform in enterprises is to implement different transitional wage regulatory policies in different types of whole-people ownership enterprises. This will require the tax department to coordinate with the labor and the wage departments to carry out deep and good investigations and research to reasonably divide enterprises into

different types, to define different types of taxes and tax rates scientifically, to understand in depth the management situation of various enterprises, to avoid tax evasion, to arouse the enthusiasm of the staff and workers according to the fundamental aim of preserving the benefits of the state to reform the tax system continuously and to improve its performance.

### III. Several Questions on Wage Reform in the Recent Past

The Seventh 5-Year Plan is an important period in the reform of our country's economic system. Wage reform is of course an important part of the reform of the whole system. Wage reform cannot "fight in isolation." It also cannot be stagnant. It can only be based on the overall schedule of the reform of the economic system. Could wage reform recently take a large step forward? It seems impossible now. First, government organizations and administrative units carried out the structural wage system in 1985 and this step in reform was not small. It brought many problems and at present many acute problems still exist which need to be solved urgently. In the next 2 to 3 years, we can only solve the remaining problems step by step. At the same time, we have to pay attention to the influences of the changes in the income of the staff of government organizations and administrative units on the wage distribution of enterprises. Moreover, we should learn and bear in mind the lesson of the premature program of the 1985 coordinated wage reform of enterprises. From now on, we need to act with caution. We should formulate and stipulate a practical plan for reform as soon as possible, and with reason and facts, should arouse the enthusiasm of the masses of staff and workers and enterprises to put the plan into practice.

The price reform is one of the keys in the reform of the economic system. It is also the precondition of the next step of the wage reform of enterprises, which is to expand the scope of "articulation." Therefore, price reform should be carried out first. Wage reform should go at a slow pace so that we can pay more attention to the reform of the internal wage system of enterprises. The state can still adopt macroeconomic control of bonus taxation to prevent the simultaneous increase of consumption expansion and prices, and in turn to guarantee that price reform can be carried out smoothly. However, at the same time, the problem of the decrease in the real income of staff and workers which resulted from price increases should be seriously solved. If price reform does not involve great changes, it will be practical to adopt the method of once-and-for-all price subsidies as this method will not affect the role of wages as an economic lever, and price subsidies are different from the function of wages. At present, we have to pay attention to the following: On the one hand, price subsidies should guarantee that the real income of staff and workers will not fall. Otherwise, enterprises will use this as an excuse to allocate bonuses in monetary terms or bonuses in real term arbitrarily. With the development of production, per capita wages should also be increased by a certain proportion. We should be careful and should not mix an increase of wages with an increase in prices. Both of them have to be "recorded into accounts separately. Otherwise, the positive functions of the enthusiasm of the thorough implementation of the principle of distribution according to labor, which is



aroused by the growth of wages, will be weakened. On the other hand, the policy of lining wages with the price index is not advisable to be carried out rushedly. The reasons are that it is still very difficult for us to determine the magnitude and the trend as well as the outcome of price increases, and our country's price reform has just started and we still lack the experience in solving the problems which will be brought about by the reform. We will lose the active role in controlling the rational increase in wages and in prices if we carry out wage indexing hurriedly. Even though the voice which is advocating this practice is very loud at present, in order to act with caution, it is better to make the decision later; and at most, we can only adopt the method of partial articulation.

Even though wage reform did not involve much readjustment at the early stage of the "Seventh 5-Year Plan," the duty to readjust various wage relations is very important. First, in government organizations and in administration units, the various types of wage relations between leading cadres and ordinary cadres, and those between administrative cadres and professional technical cadres still have to be readjusted and coordinated. Second, among government organizations, administrative units and enterprises, there objectively exists, the problem of income vying. Among these problems, how to handle well the relationship of wage differences between government organization cadres and enterprise cadres, and those between scientific research and teaching professionals and the technical and administrative staff of enterprises, is still a difficult problem. Third, the present wage relationship among different sectors, among enterprises and within enterprise, are not rational. Under the condition that the state insists on stipulating one unified wage standard, we should study and solve the acute new problems as soon as possible. Fourth, the differences in income among the people who are engaged in the whole-people ownership economy, collective-ownership economy and individual ownership economy still need to be controlled. Otherwise, the state at present has tight control over wage allocations of whole-people ownership enterprises, so serious problems in the "backward flow" of technical backbone staff will result, and this is not advantageous to invigorating large enterprises. Fifth, when the whole-people ownership enterprises have adopted various forms of diversified operations, the state has to regulate appropriately the differences among staff and workers' incomes to prevent a large gap between the highest and the lowest income level. In short, it is a very difficult task to readjust various types of wage relationships. This task involves the question of how to arouse the enthusiasm of the staff of various areas. We must pay attention to this task and from now on we have to strengthen research work to solve the problems gradually and to prevent the situation in which "old bad practices die hard."

At present, the "articulating" trial task of 1,500 large and medium-size key enterprises has obtained much experience. Therefore, an overall summary of experiences has to be conducted. Within the range of trial points, there are several tasks which have to be improved. First, the positive role of the departments concerned in local areas should be brought into play. The state should not control every enterprise directly. It should give local areas the authority that they should have. Second, "articulation" can take various

forms and it should not simply link the wages of staff and workers with the indicators of profits and taxes that have to be delivered to the state. Third, we can set up "articulating" trial points in a sector to explore for methods which can be used to compare the horizontal and vertical economic results of enterprises. Fourth, enterprises can base on the differences in their internal and external conditions to set up trial points, and to divide the enterprises in particular area into different categories. At the same time, different initial tax brackets of wage regulatory taxes should be stipulated by the state.

The main condition for an enterprise to implement "articulation" in an extensive way lies outside the enterprise. Among these conditions, the most important ones are: price relationships have to be smoothened; enterprises should have greater authority in price determination so that they can appropriately adjust the price of their products according to the market supply and demand; the state should lay resources taxes and capital taxes on enterprises to get rid of the differences in the income of different ranks and scales which result from objective factors; enterprises should have greater authority in making their own decisions regarding the operations of enterprises so that they can be responsible for their profits and losses, and in turn they can really relate a greater portion of staff and workers' income (the minimum cost of living of staff and workers should not be included in the portion of floating wages to the increase or decrease in the economic results of the enterprise, and in this way enterprises are not only responsible for profits but also for losses. When there are insufficient conditions to implement "articulation," only a portion of staff and workers' income will float up or down with enterprises' profits. Usually, this portion of income is easy to increase but difficult to cut.

When the amount of bonuses is fixed at a certain level in a particular period, how can the wages of the staff and workers be increased? This is also a question which needs to be urgently clarified. Normally, when national income and the rate of labor productivity has increased, the wage level of staff and workers should also be increased. Of course, if there is an increase in the financial income of an enterprise, it should first be used to solve the most acute problems of wages. In the coming few years when "articulation" has not been commonly implemented, the state should pay attention to planning the growth in the basic wages of staff and workers. It is better for the state to post "a notice to assure the public" at the beginning of the year and let people "know fairly well" about what will be carried out. This is advantageous for enterprises in planning production, in reassuring people, and arousing the enthusiasm of the masses of staff and workers. When the plan of wage-growth is announced in the middle, or at the end of the year, the development of production will usually be affected. Besides, within the limits of wage growth which is allowed by the state, the authority to widen the differences in income between advanced enterprises and backward enterprises, and that among the staff and workers of enterprises, should be appropriately transferred to local areas and enterprises, so that the enthusiasm of the cadres of various ranks can be fully aroused; and the state should not stipulate everything too concretely.



## MONEY MARKETS, FINANCIAL REFORMS DISCUSSED

Shanghai SHIJIE JINGJI DAOBAO in Chinese 13 Apr 87 p 7

[Article in Finance and Banking Column by Shou Jinwen [1108 6651 2429], Vice-Chairman, Finance and Economics Committee, CPPCC Shanghai Municipal Committee: "Develop And Strengthen Short-Term Money Markets"]

[Text] As the result of efforts in recent years, and especially because of last year's developments, Shanghai's short-term money market, which consists primarily of inter-bank short-term lending and borrowing, commercial papers acceptance and discounting, and issuance of short-term bonds, is gradually being established.

Although short-term money markets are relatively new in Shanghai and in other parts of the country, their effects are obvious: one, the gathering and distributing of funds has evolved from a single-channeled and sole-sourced type of activity controlled by planning into a multi-channeled and diversified form of activity regulated by market forces. Two, the financial sector took advantage of temporal, local, and occupational differences to transfer funds skillfully, accelerate the turnover rate, and utilize funds more efficiently; in addition, the issuance of bonds to gather funds in society eased the tight supply of circulating funds. Three, trans-regional inter-bank lending and borrowing, and acceptance and discounting of eligible papers furnished a part of the necessary funds for horizontal economic integrations. Four, introduction of market mechanisms enhanced the business consciousness of the specialized banks and other financial institutions. Five, the fledgling money market made it necessary, and possible, for the central bank to reinforce and improve macroeconomic controls by making use of interest rate and credits and other indirect measures; at the same time, bills and notes have become mainstream commercial credit instruments: this facilitated the reinforcement of credit controls.

Although the fledgling money market is most vibrant the establishment of a socialist capital market with Chinese characteristics is a major overhaul of a system in which all credits are concentrated in the hands of the banks, and all credit funds are vertically distributed; the money market needs to be further developed and strengthened, and other reforms must be put through to complement the process:

1. The development and strengthening of the short-term money market itself: the specialized banks should launch comprehensive commercial papers acceptance and discounting, and the central bank should start rediscounting operations. Before banker's acceptances are broadly traded among banks, we can gradually open a secondary market to promote the trading and circulation of these credit instruments.

Large denomination certificates of deposits are widely accepted credit instruments internationally. Since Shanghai's Communications bank and other specialized banks have issued these CDs we should permit their circulation in the capital market.

Short-term bonds issued by the specialized banks have become important credit instruments in the capital market and so have those issued by enterprises, and therefore there should also be a secondary market for short-term bonds.

2. Gradually set up a hierarchy of financial networks and financial centers: because of the development of the planned commodity economy, the needs of the horizontal economic integrations, and the gradual formation of a capital market, we should set up a hierarchy of financial networks and financial centers under the leadership and supervision of the central bank. Generally we can start with a regional financial network and then gradually develop trans-regional networks of different levels to be supported by the urban centers, and on that basis set up a hierarchy of financial centers: for example, Shanghai's capital market should gradually become the financial center for Shanghai's economic zones and then eventually turn that into the financial center for the whole nation.

3. Convert to the use of bills and notes in commercial lending, and reform the circulating fund control system: traditionally because of China's primitive credit system, enterprise installment payments and deferred payment are recorded in a ledger; nowadays we must vigorously promote the use of commercial papers, and at the same time encourage the banks to use bills and drafts in handling loans.

Today most enterprises use their development funds on investments, and many depend on the banks for their necessary circulating funds, but in reality the banks cannot handle all their needs. This situation must be changed: enterprises must be required to replenish their own circulating fund; if it fall short of the required ratio they must make up the deficiency with their annual retained profits; otherwise the banks may deny them new loans.

4. Accelerate the transformation of banks into enterprise-like operations: in order to enliven the large and medium sized enterprises, specialized banks which handle capital funds should operate as enterprises. In order to remove institutional impediments, we must first of all change the existing system whereby funds are vertically distributed. We must also change the system of funds management currently characterized by administrative barriers between specialized banks and between geographic regions and we must separate planning from funds management. The specialized banks must rely on themselves to gather funds and extend loans; they should make up for deficiencies by participating in capital market activities. The central bank should help them

if necessitated by market situations but should not be responsible for their funds. Specialized banks may match each other's services; enterprises may choose their bank and likewise banks may choose their clients. At the same time use economic measures to straighten out the financial dealings within the specialized bank system, and explore possibilities in replacing profit with tax in the banking industry.

5. Reinforce and improve the macroeconomic control system of the central bank: under the present economic pressure, to regulate the capital market the central bank should enhance macroeconomic controls but at the same time stimulate businesses at the microeconomic level; both are equally important. In addition to drawing up credit plans, the central bank must have a financial program for society as a whole, a program which includes bank credit and other forms of credits resulting from all fund gathering activities: this will enable the central bank to regulate the supply of funds based on the overall loan scale, and also use other fund gathering measures outside of planned channels to balance the supply and demand of funds in every regions so as to maintain basic equilibrium of supply and demand in society. Concurrently the central bank should use its interest rate measures to guide the interest rate in the capital market.

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## GOLD MARKET DISCUSSED IN COLUMN

Shanghai SHIJIE JINGJI DAOBAO in Chinese 13 Apr 87 p 7

[Article in column entitled "Ideas and Suggestions" by Hu Haiou [5170 3189 7743], Graduate Student, Shanghai University of Finance and Banking: "The Gold Market Should Be A Part Of China's Financial Market"]

[Text] In order to avoid the adverse effects of fluctuations in international exchange rates it is imperative that China perfect its financial market system and open a foreign exchange market. However, the prerequisite to, and the necessary condition for, a flexible foreign exchange rate is the opening of the gold market, because supply and demand in the gold market is the mechanism which determines the exchange rate: in the absence of an official exchange rate, and where market mechanisms are imperfect the development of the foreign exchange market will be adversely affected. To explain this issue, we must analyze the market factors which determine the exchange rate: on the whole, exchange rates are determined by two factors: one, the supply and demand of two different currencies: for example, if we need a foreign currency more than the other nation needs our currency, then the exchange rate for the foreign currency will rise while the rate for RMB will drop, and vice versa. The main factor contributing to this condition is our import and export situation: if we export more than we import, then foreign countries will have a greater demand for our currency than we have for theirs, and vice versa. Two, the comparative purchasing power of two different currencies: if a unit of our currency can purchase more goods in this country than what a unit of foreign currency can purchase in that country, then the exchange rate for the RMB will rise, and vice versa. What affects this purchasing power most is the relationship between the quantity of money and the quantity of goods in circulation: if there is excess supply of money, product price will rise and purchasing power of the currency will fall, and vice versa.

The change in purchasing power and the change in supply and demand for money do not move in the same direction, that is to say, more often they are two opposing forces which determine the exchange rate: for example, concurrent with an excess supply of money there may be a trade surplus resulting from technological or other factors, and consequently while the purchasing power of the currency may fall there is also an excess demand for it. Conversely, an inadequate supply of money may be accompanied by a trade deficit, and while the purchasing power rises there is also excess supply of the currency.

Generally speaking, purchasing power of a currency is the long-term and primary factor affecting the exchange rate, and the supply-demand situation is the short-term and secondary factor. When the two factors move in opposite directions, the force of supply and demand will moderate the effect of the change in purchasing power, and as a result the exchange rate will fluctuate within a narrower range.

This generates the question of how to measure the purchasing power of a currency. Composite price index is not a valid indicator because it is tainted by man-made factors; general product prices do not work either because of fluctuations in supply and demand and as a result those prices are not representative. Gold is a better choice because there is a limited reserve of gold, and therefore its share in the GNP is almost constant; in addition, because it is a luxury consumption good its demand is relatively stable among the people's consumption mix: the price of gold changes only if there is too much, or too little, money in circulation. Of-course, speculations and other non-economic factors can cause gold prices to fluctuate dramatically, but those are not everyday occurrences.

Obviously to open up the foreign exchange market and lift the control on exchange rates we must weigh the comparative purchasing power of the currency; opening the gold market is both the necessary and the inevitable preface to opening the foreign exchange market: without a gold market a distorted gold price cannot reflect the actual purchasing power of a currency, and the determination of the exchange rate will be rendered without basis, and the developemnt of the foreign exchange market will be affected.

The opening of a gold market contradicts our policy which for decades have prohibited the private buying and selling of gold. But if we would only slightly look into the background of this policy we would not object to having a gold market: the prohibition of private buying and selling of gold was a necessary measure in the early days of the Liberation to prevent full scale price fluctuation resulting from gold speculations. At that time, RMB newly took the place of the old currency which was based on the gold exchange standard, that is, it was pegged to the U.S. dollar and the British pound which were based on the gold standard; out of old habits people assumed that fluctuation in the price of gold implied fluctuation in currency value which in turn caused full-scale price fluctuations; therefore in order to stabilize product prices the buying and selling of gold had to be banned in order to control the price of gold. Today, RMB is no longer based on gold standard; it has not been for many decades. Worldwide, there is a trend to demonetize gold; gold has become a regular commodity, at least in China, and changes in the price of gold is like changes in the price of any other goods: they will have no effect on the overall price structure. There is no apriori reason to prohibit the private buying and selling of gold, and the opening of the gold market is the next logical step.

Furthermore, opening the gold market can facilitate the circulation of money, stabilize product prices, and help turn RMB into an international currency. Therefore, we must look at the opening the gold market as a necessary part in the establishment of a complete financial market.

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## TIBET STRENGTHENS LATERAL ECONOMIC COOPERATION

HK230620 Beijing CHINA DAILY in English 23 Jun 87 p 2

[By staff reporter Xie Songxin]

[Text] Tibet Autonomous Region, determined to eliminate poverty, is strengthening its economic cooperation with other parts of the country.

A delegation headed by Vice Chairman Jiang Cuo of the People's Government of the region is in Beijing, seeking the investment needed to help Tibet develop its abundant resources.

Twenty-one projects were unveiled yesterday at a conference in Beijing attended by representatives of central, municipal and provincial governments from which Tibet hopes to attract investment. The region wants the projects to be either joint ventures or to be paid off through compensation trade.

The projects, involving an estimated investment of 600 million yuan (\$161 million), include mining, food, timber, building materials and energy industries.

Jiang said the operation of the projects will help Tibet to improve living standards, develop its economy, and promote foreign trade. The region exported \$350 million worth of goods last year.

The projects will bring the region an additional annual profit of at least 39.9 million yuan (\$10.7 million) when completed.

They will also help the region meet its targets of raising total social product value to 1.40 billion yuan (\$400 million) in 1980 prices, its total industrial and agricultural production value to 1.2 billion yuan (\$322 million), and its average annual per capita income to 500 yuan (\$134) by 1990.

The vice-chairman said the region will announce more cooperative projects in the future to attract investment from more developed areas.

Wang Hai, an official of the State Council responsible for Tibet's economic development, said, "it is a responsibility for the developed areas to assist the development of Tibet."

Representatives at the conference expressed their interest in the projects. A Beijing representative said the municipality is interested in many projects and is ready to negotiate.

Tibet is one of the poorest regions in China, with an average per capita industrial and agricultural production value of 412 yuan (\$110), compared with the national average of 1,005 yuan (\$270).

Yesterday's conference also promised preferential treatment for investors, including eligibility for bank loans; priority in the supply of building and raw materials, power, and transportation; tax breaks and division of profits before tax; and an exemption from the construction tax.

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## NEED FOR MACROECONOMIC CONTROL OF FOREIGN LOANS STRESSED

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 3, 27 Mar 87 pp 4-8

[Article by Wu Chao [2976 6389]: "Expanding the Use of Foreign Capital Requires Increased Macrocontrol Over Debt"]

[Text] Positive and effective utilization of foreign capital to accelerate socialist modernization is an important component of China's policy of opening to the outside. In order to resolve the problem of severe shortages of capital facing China's economic construction, while relying primarily on our own internal accumulation we must open up sources of funds, positively and effectively utilizing foreign capital through various channels and by different means, so as to compensate for our own insufficient construction funds.

The utilization of foreign capital includes two main aspects: borrowing from abroad, and absorbing direct investment by foreign businessmen. Comparing the two, borrowing from abroad comprises the more important aspect of the use of foreign capital. According to World Bank data, borrowing from abroad consistently accounted for most of the capital flowing into developing countries from 1965 to 1983, with direct investment accounting for relatively little. From 1980 to 1983 the proportion of direct investment absorbed by developing countries rose somewhat, but borrowing still accounted for 73 percent of their total capital inflow. For China, foreign borrowing accounts for about three-fourths of all foreign capital utilized. Hence, adequate attention should be paid to borrowing from abroad.

China's Seventh National 5-Year Plan for Economic and Social Development points out that we must "Broaden channels for the utilization of foreign capital. Make greater use of preferential loans from foreign governments and international financial institutions, and make appropriately greater use of some foreign commercial loans. In addition to centralized state borrowing of foreign capital, a few cities and certain departments may, with state approval, also make appropriately greater use of some commercial loans...." From this it is clear that during the Seventh 5-Year Plan, as compared with the sixth, China's utilization of foreign capital will be characterized by the following: 1) the scale of borrowing will be further expanded; 2) sources and channels of foreign borrowing will be further broadened; 3) the amount of loans from foreign businessmen will be increased; 4) openings for foreign

borrowing may also be correspondingly increased. These characteristics provide us with an extremely important topic, that of how to properly borrow, utilize and manage China's foreign borrowing. Whether we are able to do these things properly not only relates to whether we are able to obtain the anticipated economic benefits of using foreign capital, and whether capital and interest on foreign loans can be paid on time to maintain our international reputation; it also relates to the personal interests of our children and grandchildren.

The international financial market currently has large amounts of capital available for lending; interest rates are at their lowest levels of the 1980's, and this is an excellent opportunity for borrowing from abroad. We should take full advantage of this in order to raise more capital for our four modernizations. At the same time, we must strengthen macrocontrol over foreign borrowing.

Strengthening macrocontrol over foreign borrowing includes many aspects. Here we shall briefly discuss some views of the following issues.

#### I. Appropriately Determine the Overall Scale of Foreign Borrowing

Appropriately determining the overall scale of borrowing from abroad to prevent loss of control over debt is critically important for a country. The experiences of many developing countries in this area provide us with a good mirror. From 1980 to 1984, the debt of developing countries increased by an average of 16.7 percent annually, reaching more than \$800 billion by 1985. Some of these countries are taking new loans to pay off the old ones, getting deeper and deeper into debt and creating a vicious cycle of foreign borrowing. Between 1975 and 1984, 25 countries were forced to take on new debts because they were unable to pay capital and interest on time. How could these developing countries have sunk into this pit of debt and been unable to extricate themselves? What does their experience teach us? I believe the following points are key: 1) the scale of debt is too large, with reliance on foreign borrowing to support an excessively rapid rate of economic growth; 2) projects constructed using foreign loans are not handled properly, with many nonproductive and even high-consumption projects having no loan repayment capacity; 3) the borrowing structure is unreasonable, with too many loans from commercial sources, and too many short-term loans; 4) there are too many openings for borrowing from abroad, leading to loss of control over the foreign debt. These experiences are valuable references for us.

How can the overall scale of foreign borrowing be appropriately determined? In determining this scale, what principles should be followed, and what factors considered? I believe that the basic principle in determining the overall scale of foreign debt is that it should correspond to the country's own capacity. Specifically, the following main factors should be taken into account:

A. Whether there is adequate repayment capacity. Repayment of the capital and interest on a foreign loan on time is an obligation that the debtor country must rigorously fulfill. Hence, when a country is determining the overall scale of its debt for a given period it must first have seen that it has repayment capacity. The loan repayment ratio (amount of annual capital and

interest repaid as a percentage of the foreign exchange generated by exports for a given year) is commonly used internationally as a yardstick for measuring the debt level that a country can maintain, and it is believed that the loan repayment ratio should generally not exceed 20 percent. But this is only a reference indicator and cannot be suited to the actual conditions of every country. The foreign loan repayment ratio that a country should or can maintain is determined by many factors. For example, is the balance of payments favorable or unfavorable, and how much so? And what are the current situation and future prospects for export trade? Are there complete mechanisms for controlling the foreign debt? and so on. The practical experience of many countries over the years shows that if a country is able to adopt effective measures and make the necessary adjustments when problems arise in repaying its loans, then a foreign loan repayment ratio of 30 percent need not be feared. Conversely, there may be difficulties even if the repayment ratio is below 20 percent. This being the case, when China sets its repayment ratio it should first do an in-depth study and forecast of China's current balance of payments and future prospects, specifically taking into account the following factors: 1) the scale of China's export trade and its rate of growth in all periods; 2) the level and rate of growth in nontrade foreign-exchange income; 3) demand for imports and its rate of growth; 4) the level and rate of growth in nontrade foreign-exchange expenditure; 5) international interest and exchange rates and their trends. In short, interest rates and the rate of growth in the debt cannot continue to exceed the rate of growth in exports and nontrade foreign-exchange income. Second, it must be considered whether China will be able to establish a forceful mechanism for regulating foreign debt for a given period in the future, to ensure a speedy and flexible response and effective adjustment when difficulties arise in repaying loans.

B. Whether the anticipated economic benefits can be obtained. Only when the use of foreign borrowing produces the anticipated economic benefits can on-time repayment of capital and interest be ensured. This is true both for specific projects and for the country as a whole. When a foreign loan is taken, therefore, an in-depth feasibility study should be done of the specific project using the foreign loan, to calculate its microeconomic benefits; there should also be an overall calculation of the economic benefits to the whole country that can be obtained from the project using the foreign loan, in order to ensure that the cost of the new loan does not exceed the rate of return on the new investment, and there must be the necessary foreign-exchange benefits to repay the loan. This requires that we give full consideration to the following points when taking a foreign loan: 1) The project construction cycle and the recovery time; 2) the rate of return on the foreign loan, i.e., the input-output ratio of the funds; 3) the foreign-exchange rate of return. Some infrastructure projects such as communications and energy do not in themselves offer any foreign-exchange income, or offer very little; in this case it is necessary to calculate the overall foreign-exchange rate of return for all projects built using foreign loans; 4) the saving in foreign-exchange expenditure that can be used to replace imports.

C. Whether there is absorptive capacity. Only when foreign borrowing is adapted to the domestic capacity to absorb it can its effects be fully exploited and the anticipated economic benefits obtained. Absorptive capacity includes many factors, such as: 1) whether there are sufficient RMB matching

funds. Any construction project using foreign loans must have the corresponding amount of RMB matching funds. In the experience of some countries, the ratio of foreign loans to the contribution in the country's own currency for a new construction project is generally 1 : 3; for a technological upgrading project for an old enterprise, the ratio is generally 1 : 1.5. Of course, this is only a rough figure, with a certain value as reference in setting a country's overall scale of foreign debt. When a specific construction project using foreign loans is being selected, a more detailed calculation must be done, since projects in different industries and of different scales may have different ratios of foreign currency to local currency; 2) whether the available resources and productive forces, including supplies of energy, raw materials, product parts, etc., can be adapted to and meet the requirements of the project using foreign loans; 3) whether absorptive capacity exists for the technology introduced with the loan; 4) whether the personnel, knowledge and experience exist for building and managing the project using foreign loans.

China's inadequate financial capacity and severe shortage of construction funds mean that in measuring our capacity to absorb foreign loans we should give special consideration to getting RMB matching funds.

Determining an appropriate overall scale of foreign debt and preventing loss of control over debt are an important mission of the state's macrocontrol. In order to make greater use of foreign capital in accelerating economic development and the four modernizations, it is entirely necessary to expand the scale of utilization of foreign borrowing during the Seventh 5-Year Plan, but the proper control must be exerted; the average annual repayment ratio should not exceed 15 percent. This is because: 1) China has a relatively large unfavorable balance in its import-export trade, and its balance of payments is tight; 2) import-export elasticity is not very great: it is difficult to increase exports or reduce imports much within a short period; 3) its capacity to absorb foreign loans is poor: the economic benefits of foreign borrowing must be gradually improved, and to some extent this restricts repayment capacity; 4) the financial management system needs to be gradually reformed, and mechanisms for regulating foreign debt need to be gradually completed and perfected. In short, the funds required for economic construction by a large country like China should come primarily from domestic accumulation, with foreign borrowing being used as a sort of supplement. Therefore, we cannot rely on foreign borrowing to sustain excessively high rates of economic growth and an excessively large scale of capital construction; otherwise it would be a case of haste making waste.

## II. Adjust the Debt Structure Rationally

Whether the debt structure is irrational is related to whether a country using foreign capital is able to obtain the anticipated socioeconomic benefits, and whether it may have difficulty repaying its loans. During the Seventh 5-Year Plan and the period following, the scale of China's borrowing will expand somewhat, and it is extremely important to adjust the debt structure rationally. The main problems in China's present debt structure are: 1) the proportion of funds from commercial sources is rising; 2) the short-term debt is increasing greatly; 3) the countries and markets borrowed from are too

concentrated; 4) there is too much borrowing in a single currency. In the face of this situation, rationally adjusting and improving China's debt structure requires starting with the following:

A. Structure of sources of funds. China's foreign borrowing falls into two large categories: first, loans from foreign governments and international financial institutions, or official sources; second, commercial loans from international financial markets, including the issue of international bonds, etc., or commercial sources.

Over the past 10 years there has been a tremendous increase in borrowing by developing countries from commercial sources, with the proportion of this borrowing rising rapidly in overall capital inflow. Funds borrowed from official sources, including preferential and nonpreferential loans, have increased more slowly, so that the debt structure of many countries has worsened and their repayment problems become more acute. In the last few years China has borrowed more from official sources, with little in the way of commercial loans, although in the last year or two there has been a rapid increase in the proportion of commercial loans. Because the funds available from official sources are inadequate and the borrowing procedures are complicated, more time is wasted; in contrast, funds from commercial sources are more easily obtainable and can be used more freely. Hence it has been necessary to take more commercial loans. But we should learn from the experience of some developing countries and expand sources and channels of official funds, and make every effort to increase the proportion of capital inflow from official funds.

B. Structure of money markets and lenders. In order to ensure a relatively stable source of funds for the utilization of foreign capital, more money markets must be opened up and utilized, and more suppliers of capital must be sought out. Due to various subjective and objective factors, to date China has had relatively few markets from which to borrow, and a not very broad range of suppliers of funds. This does not favor our future utilization of more foreign capital. Hence, we must first open up more money markets by every means possible, strictly avoiding excessive borrowing from any one market, so as to keep China from having continuing difficulties in borrowing because this market has saturated our debt capacity. Second, we must seek out a broader range of suppliers of funds and avoid excessive concentration on lenders. In a given money market, we must borrow from different sectors, such as banks, insurance companies, and funds of all kinds; even in the case of borrowing from foreign governments and international financial institutions, excessive reliance on one organization or supplier of funds is to be avoided. In short, every effort must be made to achieve diversification of borrowing markets and suppliers of funds.

C. Mix of types of borrowing. For raising funds through international financial institutions, varied forms of borrowing should be flexibly applied, using both commercial bank loans and bond issues, and both public and private bond issues; at the same time, other forms of borrowing current in international financial markets may also be adopted. Each type of borrowing has its own characteristics, advantages, and drawbacks, and they should be applied flexibly according to the actual needs of the users and the specific

conditions in the international financial markets at different times. So as to be able to adopt emergency measures quickly when problems arise in loan repayment, consideration may be given to taking more commercial bank loans. This is because the term of redemption for commercial bank loans can be adjusted through negotiations; it is difficult to renegotiate the debt in the case of bond issues, especially public bond issues, because they involve a multitude of investors.

D. Structure of debt repayment schedule. The length of the debt repayment schedule is an important indication of how good the debt structure is. The following procedures should be followed in order to properly schedule debt repayment:

1. Strictly control short-term debt. "Short-term debt" generally refers to a repayment time of one year or less. Since short-term debt is easily acquired, it may often cause a country to lose control of its debt and can vitiate the debt structure.

Some of the problems in debt repayment that have arisen internationally in recent years are due to, or worsened by, shortened terms of repayment. According to World Bank statistics, the average repayment term for all the medium- and long-term debt of the major borrowing countries was reduced from 17.9 years in 1972 to 12.7 years in 1981, and the average repayment term for several of the largest borrowing countries was even shorter. For example, in 1981, Brazil's was 9.7 years and Mexico's was 8.7 years. One important reason for this is the sharp increase in the percentage of short-term debt in total capital inflow. In order to control the increase in short-term debt, South Korea, Brazil, the Philippines and several other developing countries and regions adopted various effective measures, such as setting a minimum term of repayment, limiting the uses of short-term credits, etc.

In order to meet the need for short-term funds, it is necessary to take on some short-term debt. However, in the last two years China's short-term debt has increased quickly, with a sharp rise in its percentage in the country's total external debt. In order to bring short-term debt under effective control, we must first control its volume. The World Bank believes that, because there is generally only 90 to 120 days for raising funds in the import trade, short-term debt should not exceed the country's amount of imports for three months, and under normal circumstances it should even be somewhat less. Given China's rather large trade deficit, controls should be stricter, and short-term debt should not exceed two months of imports. Second, the uses of short-term debt must be limited; generally it should be allowed to be used only as funds for short-term loans, not for long-term investments, and it should not be used to compensate for an unfavorable balance of payments, in order to prevent a worsening of the debt structure.

2. The loan repayment term should be linked to the investment recovery time. Many countries have run into difficulty because their loan terms are too short and the investment recovery time is too long. According to World Bank statistics, in the late 1950's and early 1960's Brazil, Chili, Argentina, Ghana, Indonesia and other countries experienced difficulty repaying their debts primarily because of the dichotomy between excessively short debt



repayment terms of five to seven years and the much longer investment recovery time. Therefore, every effort should be made to adapt the loan repayment term to the investment recovery time of the project being constructed.

3. The terms for repayment of capital and payment of interest on external debt should be separated. Lumping together repayment of capital and payment of interest may often create serious difficulties for a country paying off its debt, and some developing countries have already run into trouble with this.

E. Structure of interest rates and currency. Developments and changes in the international economic situation often lead to changes in interest and exchange rates, and these latter changes also directly affect the costs and benefits of borrowing. Therefore, in dealing with the debt structure, we must give full consideration to the structure of interest rates and currency.

1. Structure of interest rates. Interest rates on loans fall into two categories, fixed rates and floating rates. In order to broaden our sources of funds and achieve diversification of our financial markets, we must borrow both at fixed interest rates and at floating interest rates. In terms of convenience of accounting, greater borrowing at fixed interest rates is beneficial; but in terms of avoiding risks in interest rates, use of half floating and half fixed, when the gap in interest is not great, is most beneficial. To avoid interest-rate risks, we must first improve our forecasting of changes in rates; second, when borrowing, we must give consideration to both interest and exchange rates. Although the interest rate on loans in a given currency may be low, the currency may show an upward trend, which implies that when the loan falls due the actual value of the same amount of currency used to pay it back will have risen. If this sort of currency appreciation is greater than the difference in interest between this currency and others, the borrower will suffer a loss. Conversely, although interest rates on loans in a given currency are relatively high, a downward trend in the value of that currency that is greater than the difference in interest between it and other currencies will mean that the borrower will profit. Therefore, when we examine interest rates in different currencies, we must at the same time consider the factor of changes in the exchange rate. In addition, we must also be skilled at using such financial tools as exchanging interest rates to guard against interest-rate risks.

2. Currency structure. The exchange-rate risk is generally greater than the interest-rate risk, since exchange rates react more sensitively to changes in the international political and economic situation than do interest rates. The accuracy of forecasts of exchange rates is directly related to borrowing costs. Since it is difficult to make accurate forecasts of changes in exchange rates, we should adopt the following measures to avoid exchange-rate risk: 1) The debt's currency structure should be adjusted according to the types of currency of China's trade and nontrade foreign-exchange earnings. In this way, if our debt currency appreciates, the value of our exchange earnings will rise along with it, thereby reducing some of the higher expense of using this currency to pay off the debt. 2) The variety of debt currencies should be increased; we should borrow both hard and soft currencies together. It is also possible to use European currency units (ECU) or the International Monetary Fund's special drawing rights (SDR) as the units for calculating the cost of



external debt. 3) The debtor-creditor contract should have a value-guarantee clause, stipulating, for example, that both parties will bear 50 percent of the exchange-rate risk, etc. 4) Currency exchange and other new financial tools should be applied, with a debt in one currency being converted to a debt in a different currency.

### III. Increase Uniformity in Foreign Borrowing

Increasing uniformity in foreign borrowing is an important aspect of debt management. With the state's macrocontrol over the external debt being rather weak, borrowing by many different parties not only leads to loss of control over the external debt and causes blind duplication in the distribution of funds, it may also raise borrowing costs and lower borrowing conditions, thereby creating losses for the state. Therefore, increasing uniformity in foreign borrowing is entirely necessary.

Increasing uniformity in foreign borrowing is especially important for raising funds through international financial markets. This is because these markets generally use floating interest rates. As for interest rate levels, in addition to being influenced by such factors as the international political and economic situation, changes in the value of the various major currencies, and interest rates in major economic powers like the United States, the currency supply-demand relationship is also an important factor not to be overlooked that also affects interest rate levels. At the same time, the terms of loans, handling charges, guarantee conditions, etc., are also affected to a certain extent by the supply-demand relationship. If many individual borrowers in a given country spontaneously approach the same market, borrowing may become much more expensive. Therefore, the governments of some countries require that borrowers get in line, only one borrower at a time being allowed to approach a given market.

China borrows from foreign governments and international financial organizations, and the state has directed the concerned departments to take their respective responsibilities for borrowing from abroad, and these departments are quite centralized and easily capable of management; however, there are many units that have been authorized to raise funds directly through international financial markets. It is urgently necessary to learn from the experience of other countries and to increase macrocontrol over borrowers turning to international financial markets.

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CSO: 4006/602

## GUANGDONG GOVERNOR URGES EXPANDING FOREIGN TRADE

OW231223 Beijing XINHUA in English 1130 GMT 23 Jun 87

[Text] Guangzhou, 23 June (XINHUA)--Guangdong Province should take advantage of the increasing demand from the international market to expand exports in the second half of this year, Provincial Governor Ye Xuanping said Monday.

At the on-going session of the Sixth Provincial People's Congress, Governor Ye said, "to increase foreign trade, we must improve management, cut production costs and improve product quality."

Guangdong boasts three of China's special economic zones which enjoy greater privileges in using foreign investment.

"In the last few years, foreign trade has played an increasingly important role in the province's economic development," Ye explained, "and 15 percent of its industrial products are now being exported."

According to Ye, the province is also using foreign funds and imported equipment and technology to upgrade existing enterprises.

In the first half of this year, the province's export value increased 56.2 percent over the same period last year.

"Priority will be given to developing the textile, machinery, and building materials industries, seafood production and the manufacture of name-brand products badly needed on the world market," Ye said.

Ye urged all departments in the province to implement the provisions of the State Council for encouragement of foreign investment and introduce local measures to improve the investment environment. He also urged cities to set up offices to handle problems and provide consultation for foreign investors.

"This year, the province will use foreign investment to import advanced equipment and technology and build up export-oriented production centers" the governor said.

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CSO: 4020/241

## BRIEFS

TEXTILE EXPORTS--Beijing, 4 July (XINHUA)--China's textile exports jumped to US\$4.08 billion in the first half of this year, an increase of 38.3 percent over the same period of 1986. Garments earned US\$929 million, 34.2 percent up on the same period of last year, silk garment exports in particular increased 50 percent. The textile product export bases are mainly distributed in the southern and eastern parts of the country, including Shanghai City, and Jiangsu and Guangdong Provinces. A dozen new enterprises, such as the Shanghai Shenda Textile and Garment Company and the Shanghai Huashen Printing and Dyeing Company, earned US\$50 million each from garment exports in the first half. [Text] [Beijing XINHUA in English 0802 GMT 4 Jul 87 OW] /12913

CSO: 4020/241

## SEZ FOREIGN EXCHANGE BALANCE DISCUSSED

Dalian CAIJING WENTI YANJIU [RESEARCH ON FINANCIAL AND ECONOMIC PROBLEMS] in Chinese 5 Mar 87 pp 30-32, 49

[Article by Xue Qinglin [5641 1987 2651]: "Exploring Issues Concerning SEZ Foreign Exchange Balance"]

[Text] Foreign exchange balance is an important part of the balance of funds in the SEZs: it pertains to the SEZs' ability to attract foreign capital; it limits their speed and extent of development; it also affects their ability to attain their strategic goals. Therefore the SEZs must work to balance their foreign exchange income and expenditure. This article explores several issues concerning foreign exchange balance in the SEZs:

I. The Importance of Foreign Exchange Balance In the SEZ's Economy

Foreign exchange earnings and expenditures are an important part of the country's finances. At any given time, foreign exchange earnings and expenditures, as well as the government's revenues and spendings, are important indicators of the economic health of the country. As the SEZs develop, foreign exchange income and expenditure grow and become increasingly important factors in the economy of the SEZs.

From the point of the strategic goals of the SEZs, the purpose of setting up these zones is to utilize foreign capital to bring in advanced technologies and give play to China's "four windows" in order to accelerate the progress of the four modernization constructions. But how much foreign funds we can utilize, and how much foreign technology and equipments we can import, depend not only on what kind of facilities the SEZs need but also on how much foreign exchange the SEZs can earn. At present the major part of the SEZs' foreign exchange income are derived from foreign trade, and they must increase productions and exports in order to get their necessary imports. One way to obtain foreign capital is to borrow funds from abroad to make up for the shortages and ease the imbalance in foreign funds; but what we borrow must be repaid, and with interest; when we absorb direct investments from foreign investors, profits generated by these investments are remitted overseas; and while imported products indeed provide advanced technologies, they also take up a share of the domestic market, that is, we give up part of the market in exchange for advanced technologies; and when the term of a contract expires,

the foreign investor repatriates his investments: all these payments in foreign currencies are dependent on the SEZs' exports which earn foreign currencies, as well as on their non-trade foreign exchange earnings. The ability to utilizing foreign funds and import advanced technologies ultimately is constrained by the ability to earn foreign exchange, and therefore we must emphasize increasing exports, expanding trade, increasing foreign exchange earnings, and maintaining foreign exchange balance: these are vital conditions in accelerating SEZ constructions.

At present the country is having financial difficulties; the SEZs cannot count on the central government or the province to given them money, especially in foreign currencies. The central authorities clearly pointed out that in establishing SEZs we must stress a policy of "giving": first, give the foreign business people who come to invest and furnish us with advanced technologies preferential treatments; second, give the SEZs greater economic autonomy. In the final analysis, balancing foreign exchange income and expenditure is the SEZs' major task: they must always keep this in mind and never neglect its importance, whether they are negotiating foreign-funded projects, signing contracts, or managing enterprises involving foreign nations.

From the above discussions we can discern the pivotal role of foreign exchange balance in the economy of the SEZs.

## II. Foreign Exchange Balance in A Newly Established SEZ

Theoretically the SEZs should maintain a balanced foreign exchange account, and frequently show a foreign exchange surplus: this reflects the strategic policy which stipulates that the SEZs should depend primarily on foreign capital, and most of their products should be export-oriented; but it is very difficult for a newly established SEZ to balanced its foreign exchange funds on its own: this [statement] may seem inconsistent, but it is not: the first part [of the statement] addresses the issue of balancing the foreign exchange funds when the SEZs are firmly established, and the latter part pertains to the SEZs in their early stage.

We recognize that in the process of establishing SEZs, and especially during the initial stage, they often encounter serious funding problems, especially foreign exchange funds; there is often an acute supply-demand problem. Based on studies of four SEZs we expect to face a more serious foreign exchange earning and expenditure problem this year. There are many factors, both extrinsic and intrinsic, contributing to this problem. Extrinsically, one of the factors is that at the initial stage all SEZs must go through an infrastructure construction period: at present, Shenzhen, Zhuhai, Shantou, and Xiamen are lacking in their infrastructures, and in order to modernize their facilities and create a good investment environment, these SEZs must spend large sums of foreign currencies to import new equipments. On the other hand, infrastructures only facilitate productions and improve living conditions, they are costly but their investment return is low, and they do not directly earn any foreign currencies: this inevitably adds to the foreign exchange problem for the SEZs. The other factor is that all new projects or new enterprises take some time before they show economic results: this is what

Western economists call the "time-lag." Therefore, every SEZ must go through a period in their early stage when its foreign exchange expenditure exceeds its income, and this is a partial and temporary foreign exchange imbalance situation. For this reason, the central and provincial governments must give the SEZs some help with their foreign exchange needs. Naturally the SEZs themselves must take the initiative to reduce the "time-lag," and reduce some of the pressure of foreign exchange imbalance.

Besides the above extrinsic factors which account for the foreign exchange imbalance, a major factor lies in the failure to handle our jobs properly: not only do we misuse foreign exchange we also have trouble earning foreign exchange. On the matter of improper use of foreign exchange, instead of concentrating on developing productions and importing advanced technologies and equipments to transform older enterprises and increase our exports to earn more foreign currencies, we import color T.V. sets, VCRs, computers, and other luxury consumption goods which are sold in the domestic market to make a profit while undermining our own industrial productions, and when these goods do not sell well they are being stockpiled. In earning foreign currencies, we do not try to gain a foothold in developing productions and increasing exports in order to firmly secure our future ability to earn foreign currencies. In attracting foreign investments, we often fail to select appropriate projects: based on studies of the four SEZs which have attracted foreign investments we find more non-industrial type than industrial type projects, more assembly-type than technology-intensive type projects, and more domestic-market-bound productions which actually "eat up" foreign exchanges than export-oriented productions which earn foreign currencies: whether it is in introducing foreign imports or integrating the domestic economy, the tendency is to emphasize circulations and the tertiary industries, and as a result we build large guesthouses and grand hotels but few factories. We have even attracted some projects which neither earn foreign currencies nor furnish advanced technologies: for example, the Xiashing Minibus Company which is jointly operated by the Xiamen Public Transit Company and the Changshing Company of Hong Kong: it opened in September 1984, and up to now has earned very little foreign currencies, and it has no ability to repay the principle and interest on the partner's foreign exchange investments; the SEZ had to come to the rescue by spending its foreign exchange. All these factors inevitably contribute to the situation of foreign exchange imbalance, because more foreign currencies are being spent than earned.

How do we solve the basic foreign exchange balance problem during the early stage of the SEZs? The author suggests adhering to the following principles: One, the SEZs must rely on themselves to balance their foreign exchange account: in the long run the SEZ's foreign currency income and expenditure must balance itself: their economy is supposed to be self-reliant and self-supporting first, and outside help (the support of the central and provincial governments) should only be supplementary in nature. Only in this way can the SEZ's economy develop on firm grounds and be viable. Two, integrate short-term plans and long-term programs: to solve the foreign exchange balance problem we must consider two aspects: we should seize present opportunities to earn foreign currencies, but we should also emphasize future possibilities. We must relate the short-term balance to long-term foreign exchange balance, and take positive steps to prevent the shortage of foreign exchange funds from



turning into a serious imbalance which may force us to seek new loans to repay old debts. Therefore we must work hard to ease the fund shortage situation and achieve basic balance. Three, advocate earning more foreign currencies while spending less: we must properly handle the relationship between increasing revenues and reducing expenditures. The relationship between foreign exchange income and expenditure, earning and utilization, is a source and distribution relationship. Income is the prerequisite to balance, and is the key to the foreign exchange income and expenditure problem. We must stress developing new sources, and emphasize finding ways to earn more foreign exchange. Only by earning more can we satisfy the needs of the SEZs to spend more foreign currencies. At the same time we must cut back on our expenditures: we should realize that income constrains expenditures, but also understand that spending affects the economy, and in turn limits revenues. In utilizing foreign currencies we must not focus on consumption: in determining the use of a sum of foreign exchange, consider its foreign currencies earning potentials, and make sure that it can earn more foreign currencies in the future. Drastically reduce the purely consumption-type expenditures, and put our limited amount of foreign currencies where they are most needed, and where they earn the most foreign currencies in return.

### III. Ways to Achieve Foreign Exchange Balance in the SEZs

To solve the SEZ's foreign exchange balance problem, basically we have to increase income and reduce expenditures. The general policy is to emphasize opening up more channels to earn foreign exchange and cutting back on foreign currency spendings. Specifically:

One, emphasize industries in the economic development of the SEZs: whether we are talking about Shenzhen or Xiamen, all SEZ should be multipurpose and export-oriented economic zones which emphasize industries but also operate other businesses as sidelines. Based on this economic strategy, the SEZs should vigorously emphasize the development of industrial productions. Before introducing a new project, consider the needs of the country's economic constructions and the project's compatibility with the SEZ's economic developments: bring in more production-type projects and less non-production type projects; among the production-type projects, technology-intensive, development-type projects, and export-oriented projects which earn foreign exchange are preferred to the assembly-type projects with little export potentials. The Xiamen SEZ has a relatively large number of older enterprises: there are 588 older enterprises on the island operating with backward technology and obsolete equipments, and their products have no competitive edge. Today we must put the emphasis on importing new equipments to transform these older enterprises, and accelerate industrial developments. Based on initial studies, a group of older enterprises in Xiamen SEZ has undergone technological transformation: not only have they increased their labor productivity but their products have reached export-standards. Even some district-run small factories (the Siming District Zipper Factory) have imported new equipments to transform themselves, and since then have managed to export a part of their production and balance their own foreign exchange income and expenditures. Between 1984 and September 1986 Xiamen SEZ brought in 303 projects which involved the older enterprises: 150 of these projects brought in foreign capital or set up joint ventures, and 153 brought in

advanced technologies and equipments, to transform the older enterprises. They introduced more than 60 new productlines and more than 500 sets of key equipments; as a result more than 100 enterprises are totally or partially transformed. When these enterprises begin productions they will be able to export, or increase the export of, their products: it is estimated that they will earn about \$100 million. So we can see that transforming the existing enterprises has great potentials in increasing foreign exchange earnings. Naturally we must plan the technological transformation of the older enterprises, and we must proceed cautiously, one step at a time, rather than rush into mass action: this way we can handle any subsequent foreign exchange balance problem in an orderly fashion.

Two, improve the economic results in foreign fund utilizations: as the SEZs develop, there will be more foreign-funded projects, and improving their economic results is one important way to keep the foreign exchange account balanced. In the past, we did not put enough emphasis on the return on investments when utilizing foreign funds, and managed the foreign funded enterprises poorly, and as a result our foreign exchange income and expenditure were adversely affected: for example, in extending preferential treatment to foreign-funded enterprises, we make no distinctions, pay no attention to the degree of technological advancement and the product export ratio, and levy a uniform 15 percent income tax, and grant everybody extended tax-exemption periods; our provisions concerning the resale of goods produced by the joint-ventures are too lenient: we allow too large a proportion of the products to be sold domestically, and for too long a period of time--according to Xiamen SEZ statistics, over 90 percent of the products of the joint venture enterprises in the city are sold in the domestic market. These factors inevitably keep the enterprises from earning foreign exchange sooner, and at the same time they increase the foreign currency expenditure because of the need to import raw materials, and as a result the foreign exchange burden of the SEZ increase. As for the business operations of enterprises, some are entirely controlled by the foreign businesses: for example, in some instances the importing side of the business is almost entirely controlled by the foreign partner while domestic sales are handled by the Chinese side, and as a result the joint ventures only work to the advantage of the foreign partner and to the disadvantage of the Chinese. As for the wholly foreign-owned enterprises, we neither investigate nor supervise their business activities and financial situations so that some foreign businesses make huge profits while their books show "losses," and we do get the corresponding benefits. All these matters require our utmost attention. In order to improve the economic results in utilizing foreign fund, and ensure foreign exchange balance, before we sign any contracts we must conduct thorough feasibility studies on each project brought in; we must have a clear understanding of the degree of technological advancement, their ability to export the products and earn foreign currencies; we must maintain the principle of "exchanging market for technology": only those products which, by their own nature or because of their advanced production processes, can compete in the world market and be exported to earn foreign currencies are allowed to be sold in the domestic market. Projects which produce goods which are not even import-substitutes must be firmly rejected. We must demand strict compliance with the terms of the contracts, and set a time limit requiring those enterprises already

operating in this country, but which are not yet ready to export their products, to meet export standards and export ratios.

Three, actively organize export capabilities: this is the main source of income for the SEZs. "Use exports to support imports": if we export more, we earn more foreign exchange, and we can import more, and spend more foreign exchange. The restructuring of the economic system, the readjustment of the rural economic structure, and the implementation of the agency system by the foreign trade department have enhanced the SEZs' ability to increase exports. Now the key is in producing highly-marketable quality products for the world market and exporting them in a timely manner. At the same time we should take advantage of the ports in the SEZs, and cooperate with fraternal provinces and cities, and launch a unified export business. For example the Xiamen Arts and Crafts Company joined its fraternal province and city to arrange for the export of arts and craft products to earn foreign exchange; it set an example for the trading companies in the SEZ. In addition, we can find ways to use our raw materials and supplemental materials, primary goods, semi-manufactured goods and set up precision work, advanced processing, refitting, and packaging operations in the SEZs as part of the export productions. Between 1984 and 1986 in addition to fulfilling its state-planned export duties, Xiamen's foreign trade system expanded its participation as export agent in extra-plan foreign trade activities, and to a certain extent, eased the SEZ foreign fund shortages problem.

Four, vigorously promote tourism and the export of labor and services: these are important direct and indirect channels to earn foreign currencies. Tourism is often called the "smoke-free industry," and it can earn substantial amounts of foreign exchange. In 1984, 3.15 million people visited Hong Kong and brought \$10 billion H.K. to its economy; each tourist spent an average of over \$4,000 H.K. Tourism has become H.K.'s second largest industry next to manufacturing. Tourism is a budding industry in China's SEZs; if we improve the facilities and attractions, tourism has a lot of potential. At the same time vigorous development of tourism will spur growth in commerce, the catering business, and other services; it will even give rise to other tourist related productions: for example, the Xiamen Ballpoint Pen Factory imported new machines and improved the quality of their products, and increased the varieties and designs; their products are now available in more than 100 large hotels and restaurants as souvenirs, and demands are overwhelming. We should also emphasize the exporting of labor and services: between 1981 and September 1986, Xiamen furnished several shipping companies in Hong Kong with nearly 1,800 man-hours of a variety of seaman services; the state earned \$3.3 million as a result.

Five, learn to make good use of foreign exchange funds: rational use of foreign exchange is the guarantee to a balanced account. Take any SEZ, there is a limited amount of foreign exchange at its disposal; even if it manages to borrow funds in the international capital market, it will not amount to much, and borrowed funds must be paid back within a certain period of time, principle plus interest. Therefore, we must know how to use foreign exchange wisely and maintain a balanced account: use foreign exchange to import advanced technologies and equipments to transform older enterprises, and hope for success after success, so that instead of permanently using up foreign

currencies these enterprises can promptly turn into exporting enterprises, and earn foreign exchange; assign priority to new projects being introduced, and spend the limited amount of funds on projects which produce goods for export and earn the most foreign currencies in the shortest period of time, or on projects which can produce goods to replace those which the state urgently needs and which are currently being imported from abroad. In order to spend funds more effectively, we must have an overall plan on how to absorb, use, and balance foreign exchange funds; not only do we need short-term and intermediate-term plans but we also need long-term plans. At the same time, we must carefully study every project which involves foreign funds: its source of foreign currencies during the construction period, its foreign currency income and spending after it goes into operation, and how it handles those income and spendings, so that for the next several years, these enterprises can be specific about achieving foreign exchange balance in the short-run, and can ascertain overall balance in the intermediate and long-term.

Furthermore, we can open financial markets to entice foreign banks, or issue stocks and bonds overseas, and use other fund gathering activities to solve the SEZs' temporary foreign exchange balance problems. But these activities should not be viewed as basic and dependable ways to maintain foreign exchange balance.

In order to ensure foreign exchange balance, we must reinforce macroeconomic guidance and plans. The intermediate and short-term plans, as well as the annual plans of the SEZs, should stipulate the ratio of production-type projects among all foreign funded projects, the ratio of labor-intensive type verses technology-intensive type projects among the production-type projects, the rate of increase in exports, the ratio of Chinese-produced raw materials and parts and components, the labor productivity rate, the foreign currency earnings quota and other quantitative figures. To stimulate interests in earning more and spend less foreign exchange, we should also promulgate general policies which help the SEZs earn foreign exchange, and policies which encourage exports.

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## MAWEI ECONOMIC DEVELOPMENT ZONE STARTS PRODUCTION

OW160841 Beijing XINHUA in English 0622 GMT 16 Jul 87

[Text] Fuzhou, 16 July (XINHUA)--The infrastructural projects have basically been completed in the Mawei Economic and Technological Development Zone of the open coastal city of Fuzhou in east China's Fujian Province, according to local officials.

Now, 13 factories and workshops, including six sino-foreign joint ventures, are already in operation and four more are scheduled to produce before the end of this year. They are mostly in the areas of precision machinery, optical instruments, electronics products and aquatic products and feed processing.

According to Yang Shiqiang, vice chairman of the Mawei Economic and Technological Development Zone, these enterprises may produce 120 million worth of goods by the end of this year and get foreign exchange earnings of more than 6 million yuan, nearly triple the planned figure.

The Mawei Economic and Technological Development Zone, covering 4.4 square kilometers, was opened in January 1985 designed to attract foreign investors. As the first step, the zone concentrated its efforts on developing a 1.7 square kilometer area for building factories.

Now the area has completed construction of six roads, a water supply system with a daily capacity of 50,000 tons, a 110 kv power transmission line and a 2,000 line program-controlled telephone exchange. In addition, it has built two berths for 10,000 dwt ships, two for ships of 5,000 tons and two for ships of 3,000 tons, with a combined annual handling capacity of 3 million tons.

Yang Shiqiang said that the development zone has signed five joint venture and cooperative enterprises contracts with overseas firms and drafted a number of letters of intent and agreements.

According to the ten-year (1986-1995) development program, Yang said, the zone will give priority for development to such industries as optical products, precision machinery, electronic products, and meters and instruments. Other development projects will include light manufacture, textiles, food processing and new building materials.

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## SHEKOU INDUSTRIAL AREA REFORMS MANAGEMENT

OW201213 Beijing XINHUA in English 1124 GMT 20 Jul 87

[Text] Beijing, 20 July (XINHUA)--Today's GUANGMING DAILY carries a report on how Shekou industrial area facing Hong Kong is reforming its management and cadre systems for faster economic growth.

The area in Shenzhen special economic zone has been developed by the China Merchant Steam Navigation Co. Ltd. of Hong Kong on a stretch of waste about 4.5 sq km in size.

According to the paper, the authorities of the area have separated enterprise management from government administration, and enterprise ownership from management since development of the area began in 1979.

In June this year, they replaced the area's management committee with a board of directors and changed the area into an economic entity, the Shekou Industrial Area Company, Ltd., the report said.

Under the new management, the board of directors decides on the major problems of the company and it will appoint a general manager to take charge of the day-to-day work.

The board is comprised of 10 directors, four of whom were appointed by the China Merchant Steam Navigation Company, Ltd., and the rest were chosen through direct election.

Reform of the cadre system means effective measures taken to ensure people's rights in electing, supervising and removing their leaders, the paper said.

Most enterprise leaders have been invited from other parts of the country. All applicants for work in an enterprise have to undergo public assessment in the enterprises and receive public approval for another term of service, the paper said.

In addition, the Sekou authorities have tried to get all people involved in the area's decision-making process for major issues by encouraging them to voice their criticisms through various channels.

According to 1987 first half-year statistics, Shekou generated 547 million yuan (US\$148 million) in industrial output value, up 40 percent over the same period of 1986.

Exports hit 366 million yuan (US\$99 million), a 47.6 percent increase, the paper said.

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## SHENZHEN TAKES INITIATIVE ON FOREIGN MARKETS

OW150746 Beijing XINHUA in English 0737 GMT 15 Jul 87

[Text] Shenzhen, 15 July (XINHUA)--Instead of waiting for foreign customers, entrepreneurs in Shenzhen, one of China's four special economic zones open to foreign investment, are taking the initiative to enter foreign markets.

An official of the city's Trade Development Bureau said here today that the city's industrial groups and foreign-funded factories have opened 81 enterprises in Hong Kong, the United States, and West European countries.

In the first half of this year, the city sent five delegations to conduct feasibility studies on exporting goods to and forming cooperative ties in industry, real estate and tourism in the United States, Latin America, the Middle East and Africa.

According to the official, the Shenzhen electronics group has taken the lead in finding markets overseas. After setting up a joint-venture electronics factory in Kenya in April this year, the group is forming a sales network in the United States, Canada, and West European countries. It has received a large number of orders since it set up a joint-venture company in Hong Kong to promote sales of its products in December last year.

Another example is the city's machine-building industry, which has purchased most of the shares and production equipment of foreign enterprises in financial difficulties since last year and turned them into sales centers for their export goods.

In spite of such efforts, the official noted, the city's exports still depend mainly on Hong Kong. Less than 5 percent of Shenzhen's products last year were sold directly to other regions.

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## SHENZHEN'S SHEKOU AREA BOOSTS PRODUCTION, EXPORTS

OW101408 Beijing XINHUA in English 0749 GMT 10 Jul 87

[Text] Shenzhen, 10 July (XINHUA)--The Shenkou industrial area in Shanzhen, one of China's four special economic zones, has shown big increases in industrial production and exports during the first half of this year.

According to 1987 first half statistics, Shekou generated 547 million yuan (US\$148 million) in industrial output value, 40 percent more than the same period in 1986.

Exports hit 366 million yuan (US\$99 million) during the same period, up 47.6 percent, and accounting for 67.4 percent of the area's total industrial output value.

The Shekou industrial area is still drawing foreign cooperation and investment, and from this January to June hosted 1,200 foreign business people and held negotiations on over 100 projects.

To date, ten import projects expected to manufacture 70 percent of their products for export have been approved, and involve a total investment of 80 million Hong Kong dollars (US\$10.3 million). The approved projects are in the electronics, light, textile and machine building industries.

In the first half of 1987, 17 new enterprises started operation in Shekou, bringing the total number of enterprises in operation to 89. The Shekou industrial area is expected to generate over one billion yuan (US\$270 million) in industrial output value this year.

In a bid to improve the investment environment, so far this year Shekou invested 42 million yuan (US\$11.4 million) in infrastructural construction, which included new residential buildings, public facilities, roads and storage areas, a 145 percent increase over the same period last year.

In June, this year, a board of directors was formed to replace the previous management committee of the Shekou industrial area to improve work efficiency.

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## XU DIXIN DISCUSSES POPULATION GROWTH

Beijing RENMIN RIBAO in Chinese 4 Apr 87 p 3

[Article by staff correspondent Zhang Yan [1728 7291]: "A Noteworthy Sign; an Interview With National People's Congress Deputy, Famed Economist Xu Dixin [6079 3321 2450]" ]

[Text] The National People's Congress is preoccupied with the population problem. Xu Dixin, famed economist, member of the National People's Congress Standing Committee on Science, Education, and Culture, and head of the China Demography Association revealed to reporters data worthy of attention. Samples taken by the State Statistical Bureau of nearly 500,000 people in 29 provinces, autonomous regions, and 413 counties and cities directly administered by a municipality reveal that the natural rate of increase of the population during 1986 was 1.2 percent.

The 81-year old Xu spoke earnestly and frankly to reporters: "The Seventh 5-Year Plan sets the goal of controlling China's population at 1,113,000,000 or less by the end of 1990. In order to attain the goal which has been set, the annual natural increase in China's population cannot exceed 1.25 percent. We should be highly aware of the fact that the population growth requirements of the first year of the Seventh 5-Year Plan have been more than fulfilled."

Xu said: "Before the 1970's, China's population was unplanned. Lowering the rate of the natural increase of the population from 3 percent in the past to about 1.1 percent proves that China's family planning work has been very successful. However we must realize clearly that our task is still very difficult. The rural areas, where 800 million people live, are the key areas for promoting family planning. Since the rural areas implemented the output-related system of contracted responsibility, the income and living standards of the peasants have been improving every year. The peasants have gradually learned that the road to riches passes through science and technology and better management. However, many peasants are placing their hopes in having more children in order to get more labor. This attitude hinders family planning work. We need to do better in areas such as propaganda and medical work in order to solve this problem."

After he explained the importance of family planning, Xu said to the reporters: "The CPC set forth a national family planning policy which

harmonizes with China's economic growth and with the Chinese national character. The key to controlling population growth is 'no loopholes.' We insist that each couple shall have only one children. This year China enters a new high in the number of births because there are 86.4 million women in the age 21 through 29 childbearing cohorts, an increase of 3.2 million over last year. Currently, one-third of all Chinese couples are having only one child. If the proportion of couples which have only one child in rural as well as in urban areas does not reach 50 percent or more, then the growth of China's population cannot be checked and the goal of the Seventh 5-Year Plan of controlling the population will not be fulfilled."

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CSO: 4006/604

## ISSUES IN USING FOREIGN CAPITAL IN AGRICULTURE

Beijing NONGYE JINGJI WENTI [PROBLEMS OF AGRICULTURAL ECONOMY] in Chinese No 5, 23 May 87 pp 16-17

[Article by Huang Ren [7806 0088], Wang Zicong [3769 1311 5115], Li Wenhu [2621 2429 3822], and Zhang Linxiu [1728 2652 4423], of the Chinese Academy of Agricultural Sciences' Agricultural Economics Institute and the Ministry of Agriculture, Animal Husbandry, and Fishery's Office of Foreign Economics: "Several Issues We Must Study in Using Foreign Capital in Agriculture"]

[Text] In one statement comrade Deng Xiaoping pointed out that "Stimulating the domestic economy and opening the economy to the outside world do not comprise a short-term policy. This is a long-term policy that will remain unchanged for at least 50 to 70 years" ("China's Almanac on Foreign Economics and Trade--1985" p 1). Using foreign capital in agriculture and importing technology are the primary aspects involved in implementing a long-term policy opening our economy to the outside world. After several years of efforts we have achieved gratifying success in using foreign capital in agriculture, but this is just the first step. From 1979 to 1985 all foreign capital used in agriculture throughout China did not add up to one-tenth of the total quantity of foreign capital used. Even Guangdong province, which has developed agricultural applications for foreign capital rather rapidly, used not even 6 percent of its total foreign capital in agriculture. We can still do a lot to accelerate and expand the scale on which we use foreign capital in agriculture and to import technology. To this end, we absolutely must study certain issues related to agricultural uses of foreign capital. Right now we must first settle the following four issues:

1. The issue of enhancing macroeconomic management of agricultural applications of foreign capital. In the past few years China has rapidly developed the use of foreign capital in agriculture. In particular, it is a new thing for us to absorb foreign commercial investment directly to set up agricultural enterprises in China. We have not conducted theoretical research or had practical experience in macroeconomic management. Looking at practices in Guangdong, poor macroeconomic management over agricultural applications of foreign capital is manifested primarily in the following ways: 1) The system of organization is unsound. Agricultural projects for absorbing foreign capital are examined and approved by economic and trade departments, yet a great many practical projects are completed by agricultural departments. The

Guangdong Agricultural Commission has established the Foreign Economic Office to be responsible for agricultural usage of foreign capital. The provincial Agricultural Bureau has established a corresponding organization, but it is only concerned with projects for using foreign capital in enterprises directly subordinate to itself. On agricultural projects where the municipalities and counties have the power to examine and grant approval, they have no direct management powers. And yet a great many medium and small projects are set up by the municipalities and counties. We have no top-to-bottom system of management, and no top-to-bottom relationship between power and responsibility. To this day some county agriculture departments have no corresponding organization to be responsible for agricultural uses of foreign capital. 2) The organizations in the agricultural system responsible for the task of utilizing foreign capital have very few functions and are limited to such agricultural projects as arranging talks with foreign businessmen. All day long they are busy with everyday routines, and they have no power to examine and approve or deny any agricultural projects based on the state of production growth in various industries. This detracts from comprehensive efforts to plan and organize agricultural projects to use foreign capital. 3) There are few personnel responsible for the task of applying foreign capital in agriculture, and they are poor in quality and have a low professional capacity. 4) When we lay stress on examining and approving projects, we neglect to execute projects already approved to supervise and manage projects already in operation. For example, when Guangdong uses foreign capital in agriculture, we know and can check on the total foreign commercial investment and actual investment. But as of today we have no accurate overall idea of our own total capital input or the operational results and economic benefits of projects in operation. Some foreign investment projects, particularly small and medium-sized ones, are allowed to run their course without effective guidance or support.

Poor macroeconomic management leads to blind applications of foreign capital in agriculture, and hence wasted resources and capital. This detracts from modern agricultural construction in China and may have an unfavorable effect on foreign commerce. It may stop us from expanding the scale of foreign capital use in agriculture or improving economic benefits from such use. Consequently, we must enhance macroeconomic management over agricultural uses of foreign capital. From perfecting the system of organization and training personnel to formulating an integrated method of macroeconomic management, we must take measures to coordinate systems and clearly demarcate powers and responsibilities. In addition to adopting the necessary administrative and management methods, we also must establish some multifunctional coordinated organizations to handle concerns and resolve problems for foreign investment projects. We have now established many foreign exchange markets such as "foreign exchange adjustment centers" all over the country, and this helps to solve the problem of foreign exchange balance in projects using foreign capital. But this is not enough. To strengthen the internal activities of foreign exchange projects, we must simultaneously establish adjustment centers to handle raw materials, technology (qualified personnel), and foreign trade.

2. The issue of taking care to preserve continuity in departmental policy. In recent years, in order to utilize foreign capital, China has improved the investment climate, strengthened economic legislation, issued several laws and

regulations in succession, encouraged foreign businesses to invest in China, safeguarded the legitimate rights and interests of foreign investors, and fully expressed the long-term nature of the task of opening the economy to the outside world. However, in some policies formulated by functioning departments, certain regulations have no regular continuity. Foreign trade management policies, in particular, fluctuate rather widely. For example, when a foreign investment contract is signed there may be no intention to place restrictions on the products or by-products produced through the investment, but 2 or 3 months after the enterprise goes into operation the departments concerned may impose new restrictions on the original product exports. Or, supervision of export quotas or export permits may be enacted. Thus, for goods produced by foreign-funded enterprises, foreign sales corridors may narrow or disappear, the scale of production will have to shrink, there will be problems balancing foreign exchange, and it will be impossible to carry on normal operations. For example, the Guangming Overseas Chinese Livestock Farm entered into a joint venture with a foreign business to start up the Guangming Overseas Chinese Food Products Corporation. The purpose of operation was to butcher hogs; process them into smoked meat, Sanmingzhi [0005 2494 3112] ham, and other top grade western food products; and ship them to Hongkong for sale. At the same time, the company was also selling pigs feet, pork viscera, and other leftover bits and pieces to Hongkong in accordance with approved contract conditions. After it had been in operation 3 years, in 1985 the foreign trade management policy changed and live pig exports were restricted. Under these new regulations this company was not allowed to export pieces left over after butchering and processing the hogs. Consequently, production costs increased by a large margin, product quality declined, and the enterprise was forced to close down or cut back production by half. This is by no means an isolated case.

Enterprises seek to exist and grow through market competition, but it is impossible to avoid the economic losses brought about by policy changes. Many foreign investors complain that policies issued by China's management departments are too changeable. Of course, in light of the developing state of foreign trade in China and the changing international market situation, we cannot be blamed for making suitable adjustments in foreign trade policies. However, there must be continuity in formulating and implementing policies, and we must enhance the indicational function of our policies. For pre-existing enterprises and established enterprises that do not conform to the new policy stipulations concerned, we should formulate corresponding remedial measures to avoid destroying them at one stroke.

3. The issue of coordinating the development of foreign-funded enterprises and agricultural foreign trade enterprises. Because China is still short of foreign exchange, if at all possible, products produced by foreign-funded enterprises must be exported to create foreign exchange. When foreign businesses invest in China, their fundamental purpose is to make a profit on their investment, and they also need foreign exchange to remit earned profits. Thus, generally speaking, Chinese and foreign efforts concerning foreign exchange essentially coincide. However, enterprises incorporating foreign commercial investment are capitalistic to a certain degree. The Chinese party can only share in part of the operating profits, and the remainder goes to the capitalist party. Certain goods produced by foreign-funded enterprises are



put on the international market, and, objectively speaking, they engender market competition for goods produced by China's foreign trade sector. In particular, many local and specialty agricultural and sideline products and processed goods have been traditionally exported by China to create foreign exchange. Agricultural enterprise funded by foreign commercial investments will inevitably intrude upon the growth and business in these foreign exchange-producing goods. This kind of intrusion is beneficial and also harmful. On the one hand it may rapidly expand exports of China's agricultural goods and commodities and increase the sources of foreign exchange, but on the other hand it will to some degree upset and counteract the state-controlled foreign trade market. How to promote the beneficial and eliminate the harmful to ensure that the foreign exchange-producing agricultural exports of foreign-funded enterprises develop in coordination with state-run agricultural foreign trade enterprises has become a pressing problem that must be resolved.

First of all, just because foreign-funded enterprises have some capitalist components, we cannot all of a sudden adopt policies that restrict operations and guarantee sources of supplies or markets for agricultural products in the state-run foreign trade sector. We should manage matters without over-managing them. Right now supply exceeds demand on the international market for agricultural goods. For example, the output of agricultural goods in Western European nations exceeds consumption: the excess measures 5 percent for beef, 9 percent for cereals, 41 percent for beef fat, and 100 percent for dairy products. In 1986 the European Common Market countries spent 40 percent of their agricultural budgets just to store these surplus agricultural products. Competition is fierce on the international agricultural market, and many nations, seeking to limit imports of agricultural goods and increase their own nation's farm exports, have adopted protectionist trade policies. Consequently, the greatest competition faced by agricultural exports from China's foreign trade sector is posed by farm produce exporters from other countries, not by domestic foreign-funded enterprises. Second, in order to enhance the competitive capability of Chinese farm exports, agricultural products produced by foreign-funded enterprises should be made part of the state plan. We should make use of foreign commercial funding and advanced technology to develop production and lower costs, and we should use market information and sales channels commanded by foreign businesses to expand the volume of exported Chinese agricultural, sideline, and processed goods. In this way we can achieve our goals of state, enterprise, and foreign business profits, and coordinated development of foreign-funded enterprises and state agricultural foreign trade enterprises.

4. The issue of choosing the correct direction for agricultural investment. From development in Guangdong using foreign capital, it appears that foreign commercial investment has been directed primarily at the aquatic products industry, the livestock industry, and industries processing agricultural and sidelines products. Investment in the aquatic products industry has been particularly heavy. From 1979 to 1985 the aquatic products industry in Guangdong signed 301 contracts to use foreign capital, accounting for 38.9 percent of all agro-economic contracts with foreigners and 26.5 percent of the total volume of foreign capital. The smallest foreign commercial investments were made in the planting industry: there were only a small number of

vegetable, flower, and fruit growing projects. Hereafter, agricultural applications of foreign capital in Guangdong should be directed primarily at developing processing industries for farm and sideline products. The majority of existing enterprises that process farm and sideline products do primary processing such as canning and packaging. Comprehensive use of intensive processing techniques awaits development. Briefly, in direction and principle, we should persevere in using high technology, creating foreign exchange, and exploiting idle resources as we use foreign capital in Chinese agriculture.

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CSO: 4006/756

## RURAL FINANCIAL STRUCTURAL REFORMS DISCUSSED

Beijing NONGYE JINGJI WENTI [PROBLEMS OF AGRICULTURAL ECONOMY] in Chinese No 3, 23 Mar 87 pp 47-50

[Article by Wang Ming [3769 7686] and Li Shusheng [2621 2885 3932] of the State Council's Rural Development Research Center: "Several Issues Concerning Rural Financial Structural Reforms"]

[Text] Today, the restructuring of the rural economy is well underway, and rural financial structural reform has been given top priority. There are several issues concerning rural financial structural reforms which need immediate attention:

I. Properly Handle the Relationship Between the Support and Preservation of a Diversity of Financial Activities and the Reinforcement of Management and Macroeconomic Control

Rural economic reforms in recent years have brought dramatic changes to rural economic relationships. The multifaceted and complex development of the rural economy requires an equally diversified form of fund circulation to accommodate the changes. This is not just some theoretical deduction but is an assessment based on gathered facts. When household and individual enterprises develop to a certain point they inevitably need to expand, but the present policies under which the banks and credit cooperatives operate cannot accommodate this expansion. This gives rise to informal fund-gathering activities among the people themselves. In the cooperative sector of the economy, in order to facilitate the gathering, augmentation, and effective use of the internally accumulated funds, the cooperatives want to set up their own fund organizations, and these organizations have flourished despite obstacles. The development of the rural commodity economy, and the changes in the industrial structure stimulate the circulation of funds, and these funds integrate with other productive elements to form new economic bodies, or increase the scope of the existing economic bodies, and as a result there emerge many direct ways to collect and distribute funds, such as using capital to create work, or using labor to create funds, or gathering funds to buy shares. In addition, because various trades and regions are divided into different levels, and each wants to protect its own development by gathering its own funds, this has given rise to a hierarchy of finance companies and trust and investment companies. Practical needs have created, and continue to create, many ways to

gather funds. This is the inevitable result of a rural economic reform which triggered the rational flow and free association, of productive elements. As long as the commodity economy continues to grow, there will continue to be a need for many different ways to gather funds; supporting and preserving this diversity is supporting and protecting the development of the commodity economy, and we must not willfully disrupt this process.

Nevertheless, the socialist commodity economy is a planned commodity economy, so we cannot give free rein to the spontaneity and blindness of market mechanisms: we need to enhance control and guidance. Financial activities are a link in social reproduction allocations; the equilibrium of supply and demand in the economy and the coordinated and balanced development of the various industrial structures are dependent on macroeconomic controls by means of financial measures, therefore, the correct handling of the relationship between the support and preservation of the diversity of financial activities and the enhancement of macroeconomic controls has become a crucial issue in rural financial structural reforms which must be resolved immediately. We cannot address all the principles and policy limitations concerning this relationship here, and we can only advance a few ideas for discussions.

First, whether a specific form of fund-gathering activity should be allowed or banned should depend on whether it facilitates the development of society's productive forces rather than on its positive or negative effects on the existing financial organizations. Both old and new financial organizations must be tested, screened, and modified in the planned commodity economy; all must compete for their survival and growth. We must support and protect new ideas and measures generated by practical needs; we must not protect the monopoly of the existing financial institutions and destroy the new ways to gather funds which have emerged to meet the needs of the commodity economy. Naturally we would want to consider the viability and resilience of the existing financial institutions, but we should not sacrifice the objectives of the reforms.

Second, ban all financial activities which may prove harmful to the nation and its people. For example at one time a certain form of credit pool was popular in some areas, a pool whose aim was a mad pursuit of very high rates of interest. Such fraudulent schemes diverted huge sums of funds away from the normal production and circulation of goods, hamper economic development, and seriously jeopardize law and order. Banning this kind of harmful activities is a must.

Third, Some forms of financial activities may not disrupt law and order, and may even meet the needs of economic developments, but their effects are yet unclear. We suggest that while we are considering replacing these activities, we should also experiment with them in a controlled environment to discover their merits and their defects, and if their merits outweigh their defects we can make further improvements and reinforce controls.

## II. The Three Crucial Relationships in the Reform of the Credit Cooperatives

Credit cooperatives are primary-level financial institutions operating in the rural communities; their reform is an important part of rural financial structural reforms. There are three kinds of relationships which require special attention in credit cooperative reforms: their relationship with the state banks; their relationship with the farmers and the cooperative economy, and the relationship within the hierarchy of credit cooperatives, especially the relationship between the county associated cooperatives and the primary-level cooperatives.

1. A proper relationship between the credit cooperatives and the state banks: Traditionally, the Agricultural Bank acts as the state bank's representative in guiding the credit cooperatives, but in fact the Agricultural Bank has always treated the credit cooperatives as their own primary-level organs. The credit cooperatives have no authority over personnel, finances, or business, and basically, they have no autonomy; the Agricultural bank exercises administrative control over the credit cooperatives which are totally dependent. This is by no means financial cooperation, and there is little vitality. Therefore, to reform the credit cooperatives the Agricultural Bank's administrative control must first be eliminated and the credit cooperatives be given autonomy in order to put their relationships in proper perspective. Although for many years we have heard the call to restore the "three natures" of the credit cooperatives, little has been accomplished so far; one wonders if it is possible for credit cooperative reform to be implemented under the leadership of the Agricultural Bank. In addition, commingling the credit funds of the Agricultural Bank and the credit cooperatives does not lend itself to enhancing macroeconomic control. The situation prompted the motion to disassociate credit cooperatives from the Agricultural Bank. The authors sense three choices in settling the relationship between the credit cooperatives and the Agricultural Bank: One, disassociate the two and put the credit cooperatives directly under the leadership and management of the People's Bank, and then either allow the credit cooperatives to form separate entities at every level and operate as mutual banks, or stopping short of that, let them become county associated cooperatives. Two, while implementing separate reforms in the credit cooperatives and the Agricultural Bank, merge the two to set up a joint-stock operation. Three, while transforming the credit cooperatives into bona fide financial cooperatives, merge them with the Agricultural Bank to form a publicly owned agricultural mutual bank (a state-supervised publicly run institution,) and turn their present loose ties into a tightly integrated relationship. The authors support such broad-ranging experiments as long as they settle the relationship between the credit cooperatives and the state banks. The state banks should manage the credit cooperatives according to law. The credit cooperatives may operate independently but on the premise that they abide by the state's financial rules and regulations, government policies, and comply with reserve deposit requirements. The publicly owned specialized banks should provide the credit cooperatives with various account, cash management, remittance settlement, and other services, based on equality and mutual benefits. In order to seize the reform initiative, credit cooperatives must show substantive progress, not merely pay lip service, in making independent use of the transferred deposits.

2. Straighten out the relationship between the credit cooperatives and the farmers and cooperative economy: this is the vital part in restoring credit cooperatives as the financial cooperatives of the farmers. If we take care of the relationship between the credit cooperatives and the state banks, and ignore the credit cooperative's relationship with the farmers, credit cooperatives can still become financial cooperatives, but they will turn into cooperatives for the staff and workers of the credit cooperatives rather than for the farmers. One can turn the existing farmer's credit cooperatives into noncooperative-type credit unions, but one cannot stamp out, or suppress forever, the farmers' desire to set up their own financial cooperatives. If we do not resolve the relationship between the credit cooperatives and the farmers, the farmers will abandon the credit cooperatives and set up their own organizations elsewhere. Therefore to remedy the defects of the government-run credit cooperatives, not only do we have to release them from the Agricultural Bank's administrative control, but even more important, we must restore their "kinship" with the farmers. On this matter, distributing a few cent's worth of dividends, inviting everybody out to dinner, or going through some symbolic voting procedure and other formalism are just token gestures. Nevertheless, what should a Chinese-style credit cooperative be like? This is one question which requires extensive research. Here the authors have a few suggestions for the sake of discussion: a) It should be a nonprofit, self-helping, financial organization set up by farmers and the rural cooperative economy (that is, organized farmers) on a shareholding basis. Nonprofit does not imply free services; it only means that members of the cooperative enjoy certain privileges, and all income net of expenses and necessary retention for accumulations will be distributed to the shareholding members, (accumulations over the years cannot be distributed.) A portion of the surplus funds and funds which cannot be used effectively can be distributed in accordance to how funds are normally allocated by the credit cooperatives. b) The management organ of the credit cooperative should be elected by their own members (and collective memberships); the operations organ should be hired or assigned by the management organ. The management organ embodies the ownership right, and the operations organ operates on the instructions of the management. c) Credit cooperatives may provide the farmers and the rural cooperative economy (including various nongovernment financial organizations,) with a variety of services including deposits, loans, cash management, remittance settlement, trust and investment, and leases, as well as underwrite stock and bond issues for rural enterprises, or provide credit verifications and loan guarantee services. d) Promptly develop financial insurance business to protect the funds of the credit cooperative.

3. Straighten out the relationships within the hierarchy of the credit cooperative system: this is one of the major issues to be resolved in the reform of the credit cooperatives. We shall confine our discussion to the relationship between the county associated cooperatives and the primary-level cooperatives. At present the county cooperatives and the credit cooperative section of the Agricultural Bank's subbranches are just two different labels for the same product; they serve the same purpose. Control over most of the primary-level cooperatives is still in the hands of the various operations sections of the subbranches; few county associated cooperatives can implement unified control over the primary-level cooperatives, and few comply with the



principle of thorough cooperation and integration. To straighten out the relationship between the county and the primary-level cooperatives, the county associated cooperatives should be formed, when necessary, by primary-level cooperatives voluntarily merging their stocks; they can also be formed by accepting stock purchases by banks and other economic bodies, but they must retain their cooperative nature. If we turn credit cooperatives into noncooperative shareholding economic entities, then county-level and primary-level credit cooperatives can still maintain a joint-stock operation relationship, but this is different from having two separate levels within the same credit cooperative hierarchy: this model can be tested too. As for the county- and primary-level cooperatives which do retain their cooperative nature, each should be an independent accounting unit, responsible for its own profits and losses; economically, they have a shareholder-lender-depositor relationship; businesswise, the county associated cooperatives serve, guide, and supervise the primary-level cooperatives, although the county associated cooperatives do not have to operate as economic entities, they can also be organizations which serve the primary-level cooperatives.

### III. Several Ideas Concerning Reform of the Agricultural Bank

For more than 30 years, the Chinese Agricultural Bank went through several business cycles only to prove that the rural communities need an agricultural bank. The first problem in the attempt to reform the Agricultural Bank is: what kind of bank do we want it to become? Only by answering that can we decide on how to implement reforms. At present there are several tentative ideas.

#### A. As a Multipurpose Bank

As the rural financial structural reforms progress further, credit cooperatives will become wholly independent economic entities; a variety of credit institutions and nongovernment credit organizations will also develop; the result will have major impact on the traditional role of the Agricultural Bank. Therefore, amidst the wave of reforms the Agricultural Bank must consider extending its lower level organs, increasing its business network, and expanding its operation territory in order to survive and grow. However, extending lower level organs and increasing business network are external-type expansions which are feasible only in areas with sufficient funds, but will otherwise be constrained by high costs. On the other hand, expanding the business territory is fundamental to survival and growth: as long as there is an extensive business territory, the bank can expand, not by adding organs and network, but by cooperating with the credit cooperatives and the financial organs, and making use of each other's comparative advantages.

A multipurpose Agricultural Bank must develop additional assets, liability and intermediary businesses, and expand its present operations which are limited primarily to loans, deposits, and remittance. In operating the Agricultural Bank as a multipurpose bank, however, we must resolve the conflict between the government's policy-oriented fundings and the need of the specialized banks to become more enterpriselike. The enterpriselike operation of the specialized banks demands that the funding of projects with strong policy implications be separated from the bank's normal operations and be handled by the government;



alternatively, the banks can act as the government's agents and set up separate accounts for those projects. However, rural credits used for the procurement of agricultural products, for cultivation, and other land-development type business, as well as on poverty-stricken communities, are often policy oriented, and if all these credit projects are diverted, nothing but rural enterprise credit is left; and it is will be most aggravating if the funding of most projects requires the special attention of the government. Therefore, as a multipurpose bank the Agricultural Bank must consider sharing some of the government's functions. At the same time, the state should note the characteristics of the Agricultural Bank, and take care of their special needs in various allocations.

#### B. "Divide and Conquer": Turning to Specialization

The idea is to separate the Agricultural Bank into three specialized financial institutions handling rural commerce, agriculture, and rural enterprises; alternatively, it suggests removing the credit funding of government's purchases of agricultural and sideline products and credit funding of rural enterprises from the bank's operations, and retaining only agriculture and other commercial operations. The starting point is improving macroeconomic control and guaranteeing balanced development of the rural industrial structure. Rural commerce, agriculture, and rural enterprises have different cyclical demand for funds. In the past when agricultural products were in short supply, there was little commercial stockpile except for the state's necessary reserves, what was purchased during the harvest season was quickly sold, and cash outlay was quickly recovered. The ebb in demand for rural commercial loans happened to coincide with the peak demand for agricultural production funds so that commercial loans and agricultural loans were able to adjust to each other's surplus and deficit: this was the objective basis for having a multipurpose Agricultural Bank. However, since the superhigh rate of growth of agricultural production resulting from the household contract responsibility system and higher agricultural product prices, the resulting stockpiling of agricultural products and commodities preempted large sums of credit funds which otherwise would be available to agriculture and rural enterprises; at the same time development of rural enterprises appropriated funds intended for the procurement of agricultural products. As a result, the amount of credit funds for agricultural productions shrank. Therefore, in order to guarantee the balanced development of all sectors, we must "divide and conquer": basically, commercial credit should be supplied by the People's Bank; the state's grain reserve should be paid for by the government (even the government cannot afford excessive stockpiles, therefore it must tackle the problem from the point of limiting production to needs.) Agricultural production funds support the continuous growth of the agricultural sector at a reasonable rate and guarantee its staying power, therefore the availability of a substantial amount of agricultural loans must be guaranteed. The steady growth of rural enterprises also requires a steady supply of credit funds; wild fluctuations do not facilitate the normal development of rural enterprises.

This line of thought seems logical, but if we look at the financial institutions in other parts of the world: some have turned from multipurpose to specialization, while others have moved in the opposite direction--which

road we should follow will depend on China's own situation, and is an issue that needs further study.

C. Merge With the Credit Cooperatives: Establish a Part State, Part Civilian, Rural Cooperative Bank

This idea takes into consideration the historical relationship between the Agricultural Bank and the credit cooperatives. After the reforms, the credit cooperatives can still maintain close ties with the Agricultural Bank: this will help lower the cost and reduce conflicts in competition. The basic scheme is to set up credit cooperatives at levels below the county level, and set up a state-run rural cooperative bank at above county level. However questions concerning contacts between the two levels, the form of ownership at the above-county level, and the installation of primary-level business organs are yet unanswered and need further studies.

Models for reforming the Agricultural Bank are not confined to the above suggestions; for example, some comrades have suggested handing over the present rural credit operations to the credit cooperatives, and changing the Agricultural Bank into a rural development bank to develop new rural financial resources, underdeveloped regions, and new industries. In short, reform of the Agricultural Bank is one of the more difficult but important tasks in rural financial structural reforms, and it will require a gradual process.

In studying rural financial structural reforms, besides studying, introducing, absorbing, and learning from the experiences of other countries, we must go to the rural economy to find out the facts, carefully investigate the soil conditions, and then determine which model best suits the development of the planned commodity economy. Accompanying the development of the rural commodity economy, farmers have stepped beyond the realm of production into the realm of circulation which includes finances: this is the source of energy which gives momentum to rural financial structural reforms. Our program for rural financial structural reforms will be tested by the farmers and their economic organizations in actual practice.

12986

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## MARKET SHORTAGE OF STARCH NOTED

Beijing NONGMIN RIBAO in Chinese 1 Apr 87 p 2

[Article: "Gradual Tightening of This Year's Starch Market; All Regions Should Stress Raw Material Production"]

[Text] In the last year, China's starch market has grown gradually tighter. In some areas supplies are sold out. Production of raw materials needed in the production of starch are also in short supply and prices are going up. At the present time, cassava strips from Guangxi are already selling for 22 to 24 yuan per dan, and cassava starch is selling for 65 to 70 yuan per dan. In the north, prices for crude corn, sweet potatoes, and white potatoes needed for starch production are going straight up and are not likely to fall this year.

Reasons for the tight supplies of starch and price rises for raw materials are as follows: First, the feed industry has been developing rapidly in recent years nationwide. Feed factories throughout the nation now have a large corn requirement, while the amount purchased by the state only amounts to 30 percent of annual production. This is far short of satisfying the needs of feed production. Second, developments in foodstuff, pharmaceutical and textile industries have made great demands for starch. There are currently more than 20 plants producing more than 1,000 tons of monosodium glutamate per year throughout the country. Brisk msg sales are having a stimulatory effect on starch prices. A third reason is that exports of cassava strips continue to be very good, especially those to the European Economic Community.

12303

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## JIANGSU RURAL REFORMS DISCUSSED

Nanjing XINHUA RIBAO in Chinese 2 Apr 87 p 2

[Commentary: "Reform Is the Major Topic of Rural Work This Year"; portions within slantlines in italics]

[Text] Reform is the major topic for this year's reform work and should be placed at the head of the agenda.

Where should the strengthening of rural reform this year begin? The following issues arise from the standpoint of the progress of reforms over the past few years in all areas and the current needs of the cadres and masses:

/The issue of the "two-track system" for the purchase of grain and the issue of the purchase price of cotton, oils, hogs, and poultry./ The central leadership has determined that the parallel "two-track system" of fixed-quota contracts and market purchase of grains will continue to be implemented for a long time to come, in order to protect stability of market supplies. This is correct and must be conscientiously effected. It should still be emphasized that contracts for fixed quotas of grain are tasked by the state and a glorious mission for farmers. Affirmative explorations should be made for such basic industrial raw materials as cotton bolls, oils and silk cocoons for operating manufacturing enterprises jointly with planting units in the localities where they are produced and for setting up supply and sales contracts, so that centralized purchase and transfer by the state can be gradually reduced. Such fresh products as fish, poultry, eggs, vegetables, and meat which are already completely deregulated should continue to be purchased and sold freely; and preparations should be made for deregulation of those products which are not yet fully deregulated.

/The question of reform of circulation systems./ This has been a major point in rural reforms in Jiangsu over the past 2 years. First, all sectors should affirmatively support farmers in organizing among themselves to enter circulation. Such circulation organizations as the multiplicity of service operations companies already established in village and rural cooperative economic organizations, rural township industrial companies, agricultural companies, and trading warehouses, along with such voluntarily organized joint purchase and sales organizations as specialized cooperatives and associations between organizations with different types of ownership and individual

commercial and transport and sales households should further expand the scope of their business, strengthen operational management, increase the substance of their services, upgrade economic results, and more effectively promote the development of the rural commodity economy. In places where conditions are right, a new group of such peasant circulation organizations may continue to form. At the same time, efforts should be made to improve collective and specialized market trading. Appropriate development of circulation by individuals should be supported. State-run commerce, supply and sales cooperatives, and banking, revenue, and industrial and commercial administration departments should continue their affirmative support and strong management and get more and more peasants to become involved in the circulation sector.

Reform of supply and sales cooperatives should be always moving in a stable fashion in the direction of "rapid establishment of cooperative commercial organizations among farmers, and improvement of commodity production and service systems." Voluntary participation, autonomous management, individual responsibility for profits and losses, democratic management, and strengthened services are the key. Reforms in rural state-run shops and foodstuff stations should be keyed through the principle of separating government from enterprises. Such various forms of responsibility systems as contracts linked to output operations and leasing operations should be developed and improved. This will gradually lead to real economic entities with independent accounting and responsibility for profits and losses which will lead to growth of services in the rural commodity economy.

/The issue of reform of rural finance./ Revitalization of rural finance and development of a market for important segments of production are important ways of bringing flexibility and adjustments to the distribution of rural funds, technology, and labor and for making that distribution respond to the needs of development in the rural economy. This should always be in accord with the needs of "adroitly guiding action according to circumstances, promoting circulation, diversified modes, and gradual expansion," as well as with sincere and conscientious implementation of the guiding spirit and various policies and measures of the central leadership for furthering rural reform.

Rural credit cooperatives should expand their rights of autonomy over their funds and move aggressively to develop diversified modes of currency flow in accordance with the principles of "democratic management, independent operations, and responsibility for profits and losses." Farm banks should increase the autonomy of grassroots-level branches, make operations more entrepreneurial, and link responsibility to rights and interests in order to motivate staff and workers, increase their deposits and loans, expand horizontal cash flow, open up capital markets, and upgrade returns from currency circulation. Cooperative economic organizations should continue to develop their internal currency circulation activities, develop capital accumulation by distribution or external issuance of shares and bonds, and work to deregulate loans among the people, in order to bring about further concentration of the capital now spread out through society. Where conditions permit, mutual insurance may be implemented on a trial basis. Mutual insurance is the wave of the future. In economically developed regions,

movement should be away from premium-free project guarantees toward insurance. This will prevent and overcome the "supply system" mentality, on the one hand, and concentrate capital for use in building production, on the other. Rural finance should be revitalized at the same time as management over it is strengthened. All capital organizations must abide by state financial regulations and policies and accept supervision by state financial management agencies. Offering of deposit services must carry government approval.

/The question of diversified economic modes./ The premier position of rural and village cooperative economic organizations and the enterprises they start in Jiangsu's rural economic is stable. The task from now on is to make the organization a sounder one, to expand services, strengthen management and establish systems which improve the two-level operational structure, make the output-related household contract system more stable, and in particular, lead to a genuine resolution of contract disputes which have already arisen. At the same time, they should adroitly adjust to circumstances, and pay attention to development of various specialized cooperative economic organizations which augment and complement existing rural cooperative economic organizations. This will inform and strengthen the primary sector which is the rural cooperative economic network. Rural and village cooperative economic organizations should gradually make uniform their organizational systems and operational management systems so as to improve their premier position.

The following policy should be used for individual economic units and private enterprise: first, there are long-term implementation policies for various forms of rural individually operated specialized households and individual operations; second, there is to be implementation of the policy of "permitting the existence and strengthening management, promoting the good and suppressing the bad, and gradually bringing into line" private enterprise; third is the long-term policy that at such time as individual operations and private enterprise engender their own needs, they shall "lead the peasants along the road of the cooperative economy." There have been considerable developments in individual operations and private enterprise in Jiangsu in recent years. However, this is not to say that there is no longer room for growth or that they have all reached the point where they should be coopted. Ancillary priorities may differ based upon actual local conditions right now. In Subei and especially in Huaibei, more individual economic units can be developed; more enterprises run by households or joint households can be set up; and some private enterprises may be established. In most areas of Sunan the primary stress should be upon the collective economy and collective enterprises. Still, in those rural area's of Sunan where the collective economy is well developed, enterprises run by households or joint households can be started. With an eye to the demands of the central leadership based upon respective circumstances, all areas should respect the freedom of farmers to select their own mode of operations, protect their legitimate operations and interests, and have them develop as they should. As far as private enterprises are concerned, all departments concerned should draft the necessary systems and regulations, strengthen management, and improve how they manage relationships between them and collective enterprises. They should fine-tune internal distribution relationships, provide incentives for expanded reinvestment, and act sincerely to promote the good and suppress the bad. CPC members are encouraged to start collective enterprises and move affirmatively

to lead the masses along the road to common affluence. This is entirely correct. However, in those places or sectors which for the moment are not suited for the starting of collective enterprises, party members, as peasants, naturally can still go into individual operations and private enterprises. As party members, though, as soon as they begin operations they should be prudent to implement party policies, abide by party rules and state laws, and never forget that it is they who are to lead the masses toward common affluence.

As the course of rural reform progresses across the whole range of the modernization of our endeavors, we must implement and uphold the teachings of the four cardinal principles from start to finish, and turn the broad masses into a new form of farmer who has "ideals, morality, education, and discipline."

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## JIANGSU READJUSTS PRICE OF 11 PESTICIDES

Beijing NONGMIN RIBAO in Chinese 1 Apr 87 p 2

[Article: "Jiangsu Readjusts Prices on 11 Pesticides; 6 Types Adjusted Up an Average of 13.14 Percent; 5 Types Adjusted Down an Average of 21.6 Percent"]

[Text] The relevant departments in Jiangsu have decided to readjust the selling price of 11 pesticides as of the latter part of March 87. Prices on six types will be raised an average of 13.14 percent and on five types lowered an average of 21.6 percent.

The price of 40 percent dimethoate emulsion rose from 5,200 yuan per ton to 6,600 yuan; 50 percent methylamine phosphate rose from 6,000 yuan per ton to 6,500 yuan; 40 percent dimethoate oxide rose from 7,600 yuan per ton to 8,500 yuan; and 80 percent dichlorvos rose from 5,560 yuan to 6,700 yuan per ton. The above price increases are averages for a 1-kilo bottle. For the half-kilo bottle, prices are up an added 300 yuan. The retail price of 90 percent crystallized trichlorfon rose from 3,370 yuan to 4,260 yuan, while that of wettable nitrofen powder rose from 2,000 yuan to 2,360 yuan per ton.

Among the lowered prices were those for 25 percent fen xiu ning [4720 6907 1337] which fell from 65,760 yuan to 55,760 yuan per ton. The price of 20 percent san huan zuo [0005 3883 8143] dropped from 31,380 yuan to 24,000 yuan per ton, while that of 25 percent sevin went from 1,600 yuan to 1,000 yuan per ton. Prices for 20 percent trioxide acaricide emulsion fell from 1,600 yuan to 1,000 yuan, while those for 10 percent lu qing ju zhi emulsion [3048 8642 5468 5176] dropped from 22,000 yuan to 18,000 yuan per ton.

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## NEI MONGGOL OAT PRODUCTION

Hohhot NEIMENGGU RIBAO in Chinese 27 Mar 87 p 1

[Article by Li Minzi [2621 7836 1320]: "Results of Research in Dryland Naked Oats Put Region in First Place Nationwide"]

[Text] The results of research into breed selection and cultivating techniques for new varieties of dryland naked oats in this region have been applied to a production demonstration, resulting in an outstanding increase in production. Experts believe that these results put our region in first place nationwide for this type of research.

The area sown in naked oats in the region is approximately 7 million mu, or one-seventh the total area sown in grain and pulses in the region. A deteriorating ecology over the years, together with such factors as inadequate energy supplies, backward cultivating techniques, older and mixed varieties, and inability to effectively control diseases and insect pests, contributed to low unit yields (about 100 jin) and unstable total yields far below worldwide naked oat production levels. To deal with this situation, the autonomous region's science committee assigned research topics in 1982 on new breed selection and cultivating techniques for dryland naked oats. After these assignments were made, six units--the Potato Crop Institute, the Fertilizer Institute, and the Crop Protection Institute of the Nei Menggu Agricultural Science Institute; the Department of Agriculture of the Nei Menggu Institute of Agriculture and Animal Husbandry; the Ulanqab League Agricultural Science Institute; and the Xilin Gol League Agricultural Science Institute--undertook simultaneous research in the areas of varieties, cultivation, fertilizer, and plant protection, cooperating on key issues. After three years of effort, they came up with a complete technology in the area of practical production; in the area of applied research, for the first time in the region they elucidated characteristics of fertilizer requirements and laws of fertilizer absorption for the various life phases of dryland naked oats and determined the physiological indicators for abundant yields, providing an important scientific foundation for rational fertilizer application and for formulating cultivating techniques for abundant and stable yields.

They selected three varieties of dryland naked oats: Jian 19, Gao 8-21, and Yan 7413. The average increase in yield was from 18.6 percent to 32.6 percent. They selected three varieties of two-autumn naked oats--1815, Mengyan 7413,

and Jian 24--and achieved an average increase in yield of from 16.85 percent to 17.17 percent.

They ended up with a 12-point physiological cultivation technique to ensure high and stable yields, involving site and crop selection, water retention, preservation of soil moisture, regulated sowing times, selection of fertilizer, fertilizer amount and application, selection of variety according to site, determination of amount sown, broadcasting, seed dressing to prevent insects, and field management; the technique is simple and easy to understand and comprehensible to the masses. Last year the technique was applied to 300-mu demonstration plots in Zhuozi County and Qahar Right Wing Front Banner in Ulanqab League and Taibus Banner in Xilin Gol League. Under conditions of severe drought, the lowest unit yield was 259 jin, and the highest was 330 jin. Compared to control fields, this clearly demonstrates the superiority of this technique.

13322

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## SHANDONG REGULATIONS ON FARM PRICES

Jinan NONGYE ZHISHI [AGRICULTURAL KNOWLEDGE] in Chinese No 7, 5 Apr 87 p 2

[Article by Chen Yi [7115 3085], Shandong Department of Agriculture: "New Regulations This Year for Purchase Prices of Agricultural Products"]

[Text] In order to further develop agricultural production and ensure continued growth in peasant income, Shandong's price bureau, grain bureau, supply and marketing cooperatives and other departments recently issued new regulations regarding the purchase prices of cotton, tobacco, corn, paddy, millet, peanuts (and oil), and cottonseed (and oil).

Cotton: beginning when this year's new cotton reaches the market, its purchase price will be raised appropriately. The ratio of the cotton list price to the added price will go from "inverse four six" to "inverse three seven," i.e., 30 percent purchased at the list price and 70 percent at the added price. In this way, the purchase price of standard roller ginned cotton will go from last year's 172.04 yuan per dan to 176.42 yuan. At the same time, it is stipulated that the purchase of cotton outside the contractual quotas will be treated the same as that within the quotas.

Adjustment of the purchase price of flue-cured tobacco this year will involve an expansion of the price difference between grades, under the principle of raising slightly the overall level of purchase prices. Purchase prices for superior and medium grades will be appropriately lowered, and those of the low and inferior grades will be lowered. The purpose of this is to mobilize peasant enthusiasm for producing superior tobacco and to increase their income by increasing the proportion of superior and medium grades. This year the province's average purchase price for flue-cured tobacco will be raised from the current 87.97 yuan per dan to 91.71 yuan, or 4.25 percent; this is 0.27 percent more than the national average increase of 3.98 percent.

Grain: the price of corn will increase 1 yuan per 50 kg, with an adjustment from last year's contractual purchase price (proportional purchase price, here and below) of 15.6 yuan per 50 kg to 16.6 yuan; the paddy price will rise 1.75 yuan per 50 kg, from the old contractual quota price of 19.2 yuan per 50 kg to 20.95 yuan. The price of long-grain rice will be raised 1.5 yuan, from the old contractual quota price of 16.4 yuan per 50 kg to 17.9 yuan. The price of millet will rise 1 yuan, from the old contractual quota price of 15.6 yuan per

50 kg to 16.6 yuan. The price of round-grain rice will rise 2.5 yuan, from the old contractual quota price of 26.5 yuan per 50 kg to 29 yuan. The price of polished long-grain rice will rise 2.14 yuan, from the old contractual quota price of 22.3 yuan per 50 kg to 24.44 yuan.

Oil crops: the contractual quota price of peanuts (and oil) will be raised from the "inverse four six" proportional price (i.e., 40 percent at list price, 60 percent at added price) to the over-quota price (i.e., 100 percent at the added price, or an additional 50 percent over the monopoly purchase price). The purchase price of cottonseed (oil) will rise from the "regular four six" proportional price (60 percent at list price, 40 percent at added price) to the over-quota price. In this way, the contractual quota price of shelled peanuts, peanut oil, and in-the-shell peanuts will go from 62.4 yuan, 140.5 yuan, and 40.56 yuan per 50 kg, respectively, to 72 yuan, 172.5 yuan, and 46.3 yuan. The purchase price of cottonseed per 50 kg will go from 13.3 yuan for Grade 1, 12.6 yuan for Grade 2, and 10.2 yuan for grade 3 to 17.25 yuan, 15.75 yuan, and 12.75 yuan. The 86.4 yuan price for 50 kg of cottonseed oil will rise to 108 yuan. Baby oil will go from 100.18 yuan per 50 kg to 126 yuan.

The new quota prices for grain and oils will take effect on 1 April.

13322

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## BRIEFS

ZHEJIANG SILKWORM COCOONS--This spring Zhejiang Province produced 38,600 tons of cocoons, an increase of 3,700 tons over 1986. [Excerpt] [Hangzhou ZHEJIANG RIBAO in Chinese 25 Jun 87 p 1]

JIANGXI SUGARCANE AREA--At present, the 450,000 mu sown to sugarcane in Jiangxi Province is growing well. [Excerpt] [Nanchang JIANGXI RIBAO in Chinese 29 Jun 87 p 1]

JIANGXI OIL STORAGE--As of 20 June, Jiangxi Province had put 13,180,000 kilograms of edible oil in storage, an increase of 1,230,000 kilograms over the same period in 1986. [Excerpt] [Nanchang JIANGXI RIBAO in Chinese 2 Jul 87 p 1]

JIANGSU SUMMER HARVEST--The statistical bureau in Jiangsu Province estimates gross output of summer grain to be 11,220,000 tons, nearly 5 percent less than 1986. The area sown to summer grain increased by nearly 140,000 mu over 1986, but the average yield per mu declined. Because the area sown to rapeseeds increased by nearly 290,000 mu, estimated gross output is 810,000 tons, a 2.7 percent increase over 1986. [Excerpt] [Nanjing XINHUA RIBAO in Chinese 2 Jul 87 p 1]

YUNNAN FERTILIZER OUTPUT--From January to May, Yunnan Province produced 1,250,000 tons of chemical fertilizer, an increase of 30,000 tons over the same period in 1986. [Excerpt] [Kunming YUNNAN RIBAO in Chinese 3 Jul 87 p 2]

YUNNAN GRAIN HARVEST--Gross output of summer grain in Yunnan Province was more than 1.25 billion kilograms. As of 10 June, the province had put 98,570,000 kilograms of grain in storage, accounting for 68.5 percent of the annual plan, and an increase of 53,050,000 kilograms over the same period in 1986. In addition, 73,450,000 kilograms of grain at negotiated prices were procured. [Excerpts] [Kunming YUNNAN RIBAO in Chinese 25 Jun 87 p 1]

HEBEI SUNFLOWER SEED OUTPUT--According to statistics from the 6 major sunflower producing areas in Hebei Province, sunflower seed output will be 53,870,000 kilograms, a 4.36 percent increase over 1986; marketable sunflower seeds will be 43,850,000 kilograms, a 1.08 percent decrease from 1986; supply and marketing cooperatives will purchase 15,660,000 kilograms, a 19.4 percent decrease from 1986. The average negotiated price for each kilogram is 9.87 yuan, a 2.4 percent increase over 1986. The list price is 0.97 yuan, a 4.3 percent increase over 1986. [Excerpt] [Beijing ZHONGGUO NONGCUN JINGYING BAO in Chinese 10 Jul 87 p 4]

HUNAN CITRUS FRUIT--This year Hunan Province has sown 1,641,000 mu to citrus fruit, a 12 percent increase over 1986. Estimated output is 350,000 tons, about a 13 percent decrease from 1986. [Excerpt] [Beijing NONGMIN RIBAO in Chinese 7 Jul 87 p 2]

FUJIAN FRUIT OUTPUT--According to statistics of the agricultural department in Fujian Province, gross output of fruit will be 425 million kilograms, an increase of more than 75 million kilograms over 1986. [Excerpt] [Beijing NONGMIN RIBAO in Chinese 27 Jun 87 p 2]

CSO: 4006/833



## CAS OFFICIAL WARNS OF INTELLECTUALS' FINANCIAL, HEALTH WOES

Harbin HEILONGJIANG RIBAO in Chinese 24 Apr 87 p 4

[Summary] Yang Luo, member of the CPPCC and director of the Institute of Mathematics of the Chinese Academy of Sciences, recently told this reporter that following the untimely death of Zhang Guanghuo, a noted mathematician and research fellow at the Institute, another research fellow died suddenly at 50 of a heart ailment complicated by influenza. Last year two research fellows from the Institute of Acoustics died at middle age, while at the Institute of Computer Science there has been an average of one to two deaths annually of its middle-aged research fellows. This cannot but attract our serious attention.

In explaining why the death rate among middle-aged intellectuals is high, Yang Luo generalized, saying that although middle-aged intellectuals now are vanguard workers of their respective units, they are still suffering from malnutrition as the result of poverty, a heavy workload, and low wages. In Zhang Guanghou's case, despite belated efforts on the part of his unit to save his life, he died as a consequence of 20 years of inadequate nutrition.

Yang asserts, however, that since the 3d Plenary Session of the 11th CPC Central Committee, intellectuals have on the whole received better treatment. A majority of intellectuals who graduated in the 1950s or 1960s and who were recipients of 56 yuan monthly for 20 years have received an adjustment that raised their salary to 100 yuan. They have also received a better housing allowance as, for instance, a single family of 4 is now entitled to a two-room unit. Nonetheless, their wages are still lower than those of other workers of the same age. According to a report released by the State Statistical Bureau, the annual per capita income in Beijing is about 930 yuan and the monthly income of a family of 4 is about 300 yuan. The income of an intellectual family of 4 is lower.

Yang pointed out that there are people who believe that intellectuals now receive better treatment. But the income of middle-aged intellectuals remains low. By better treatment he does not mean overtime pay for their more than 8-hour daily mental labor, but he does hope that they will receive wage parity with other workers of the same age.

Yang Luo asked this reporter to call attention to the intellectuals' plight. In the past 10 years, middle-aged intellectuals have indeed worked as vanguards in their respective fields; 10 years from now they will probably still be vanguards. So if nothing is done to redress their nutrition and

health problems the consequences could be very bleak and China could stand to lose many talents, such as Zhang Guanghou. Similarly, the plight of middle-aged intellectuals will have a direct bearing upon the stable growth of the next generation of intellectuals as they begin to look for jobs.

CSO: 4005/840

STRATEGIC RELATIONSHIP BETWEEN REGULAR, RESERVE FORCES

Beijing JIEFANGJUN BAO in Chinese 5 Jun 87 p 3

[Article by Zhang Taiheng [1728 1132 1854] [deputy commander, Chengdu MR]:  
"New Concepts of National Defense"]

[Text] Following strategic changes in the guiding philosophy of military build-up in China, it has become the historic mission of our generation of soldiers to focus on the future, ponder the course of defense development, and create a modern national defense with Chinese characteristics. This article offers some preliminary ideas on the integration between regular and reserve forces as a lesson I have learned from studying the spirit of the enlarged session of the Central Military Commission in 1986.

A Common Choice

Defense modernization is a continuously evolving process.

A new trend has emerged in the national defense of many nations after World War II, constrained by the law of "contraction in peacetime, expansion in wartime."

A dilemma common to all countries is this: how to reconcile the maintenance of actual forces with the conservation of potential forces in peacetime under the shadow of nuclear war. In peacetime, there is a need to cut back on armed forces. In wartime, however, the need is to mobilize a large number of troops fast. Moreover, modernized warfare demands soldiers of a high caliber with a good deal of technical training. Hasty last-minute measures are no way to produce a strong defense. But although maintaining a large regular army at all times provides the nation with adequate security, an excessively large regular army will hinder the effort to improve quality and affect long-term defense build-up, given China's limited economic resources. On the other hand, if we maintain a regular army of a limited size in peacetime, it may not adequately meet national security needs. In other words, in view of the constraints on defense spending, an adequate regular army can only be acquired at the expense of quality, while to improve quality we must begin with a reduction in quantity. By analyzing the two aspects, we come to the conclusion that both quality and quantity are vital in peacetime and wartime. Neither should be over-emphasized at the expense of the other. We must stop believing that we must look after one thing at a time and instead work out a strategy that satisfies both requirements.

The new dilemma has forced all nations to make a common strategic choice where the present meets with the future: reduce standing forces, improve potential, and perfect the ability to shift gears from peace to war by combining a small but highly trained regular army with strong reserve forces. Hence the stress in every nation on beefing up reserve strength.

Because of this choice, a striking change has occurred in the development of military forces worldwide. Since 1981, the U.S. Congress has rejected plans to increase regular forces several years in a row while eagerly giving the green light to increase reserves. According to relevant data, current U.S. reserve forces exceed the existing regular forces of France and West Germany combined. In the Soviet Union, reserves at the Class 1 Grade 1 level alone exceed 25 million, five times that of regular forces. Both Britain and France are developed nations of the medium rank where reserves are 88 and 84 percent, respectively, of regular forces. The regular armies of Switzerland and Sweden normally number about several tens of thousands of men, but both countries boast well-equipped and highly trained reserve units consisting of hundreds of thousands of men. Then there is a host of countries like Egypt which have also set up their own reserve forces based on the size of their regular forces. Moreover, the weapons and equipment of the reserves are in no way inferior to those of the regular services. Sometimes, the reserves may possess hardware absent from the regular contingents. All signs indicate that the merging between regular and reserve forces everywhere will result in the creation of "general national defense forces" of a higher order.

Following the strategic change, China's defense modernization must similarly combine the maintenance of a small but highly trained regular army with the development of a strong reserve contingent. Clearly, China differs from Western nations and the Western bloc; it will not do for it to duplicate the foreign experience wholesale. However, as with the relationship between individuality and generality, defense modernization requires China to understand the common trends and make the correct choice. That is the only way to create its own characteristics.

#### Modern Defense Should Be Highly Elastic

"The military is a national priority." Many issues have to be considered if China decides to combine the maintenance of a small but highly trained regular army with the development of a large and powerful reserve army in peacetime. But the most important remains the objectives of defense modernization. In other words, what should be the thrust of its defense efforts?

The value of objectives is self-evident. The setting of strategic objectives is closely related to strategic forecasting. Only if China comprehensively evaluates the world and peripheral strategic environments and the threat of potential war in the next 2 to 3 decades can it set goals for defense build-up properly.

As we all know, China is a socialist nation, a power that occupies a special position in the international strategic setup. From the perspective of military geography, China's peripheral strategic environment is more complex

than that of any other nation, which gives rise to several national security needs. We must think comprehensively, never focusing on just one aspect. The strategic objectives of defense modernization must be subordinate to and be compatible with the status and role of the state in international affairs. A modern defense must be multi-functional and highly elastic. It must be suited to China's status as a power and be able to deal with all kinds of complex circumstances.

Elastic defense imposes new demands on the structure of the armed forces. Defense modernization means more than the modernization of weaponry and equipment. Even more important is the improvement of the entire structure within the defense system. Regular services, reserves, and scientific and technical industry are the indispensable triumvirate of the organic parts of defense forces. The relationship among them may be presented in the form of an equation, as follows:

$$\text{Defense forces} = \begin{array}{c} \text{regular forces} \\ \text{-----} \\ \text{defense invest-} \\ \text{ments} \end{array} + \begin{array}{c} \text{reserve forces} \\ \text{-----} \\ \text{defense invest-} \\ \text{ments} \end{array} + \begin{array}{c} \text{S\&T industry} \\ \text{-----} \\ \text{defense invest-} \\ \text{ments} \end{array}$$

x peace-to-war changeover ability

It can be seen from this equation that the overall results of national defense forces should be greater than the sum of the parts. The key is to make sure that all components form mechanisms whereby they can supplement one another so that they develop in a coordinated balanced way.

According to systems theory, the elasticity of national defense forces to a large extent hinges upon structural differentiation. The experience of many nations makes it clear that it is necessary not only to distinguish between the two subsystems, regular services and reserves, but also to differentiate between different layers within both subsystems so that the forces make up a tiered structure. Reserves, for instance, are divided into militia reserves, which, in turn, are divided into Classes 1, 2, and 3. Class 1 reserves consist of both organized reserve units and non-organized reserve units. Tiering satisfies the requirements of multi-purpose elastic national defense and meets the need to deal with the threat of different kinds of war. Moreover, given the constraints on defense spending, national defense modernization can only be carried out in phases, step by step. Tiering makes it possible for us to target resources, emphasize what is important, and improve the comprehensive results of defense investments. China is a huge country with a large army. There are tremendous regional differences and the economy has developed very unevenly. At a time when the country is less than affluent, therefore, the armed forces cannot develop all at the same pace.

The most economical strategy is function through structure. In relatively stable peacetime, the security function of the armed services involves more than actual combat: "fighting a war to stop a war." They must also be able to deter, that is, "winning a war without actually fighting one." Actual combat is the basis for deterrence. Deterrence is another manifestation of actual combat. The higher the capacity for actual combat, the greater the

deterrence. And the greater the deterrence, the smaller the possibility of actual combat. The aim of actual combat is to win a war, while the aim of deterrence is to conquer the enemy without fighting. These two different capacities are related to each other in direct proportion functionally and in inverse proportion operationally. Only when a nation's armed forces possess both capacities can it deal with all kinds of sudden events and complex situations, consistently keep the strategic initiative in its hands, and really bring out its defense elasticity. Because the costs and risks of actual combat are high while those of deterrence are low, it is better, in a certain sense, to use deterrence skillfully and win a war without fighting than to be good at winning wars. This is particularly important for defense-oriented countries. Long known as a "garden," Switzerland is a small country with a population of just over 6 million. Although its standing army is only 40,000 to 50,000-men strong, it has managed to maintain a state of armed neutrality and stayed out of war for over 170 years despite its location in a dangerous part of the world. Its secret? Essentially keeping a citizen army and mastering the tricks of deterrence.

#### Cultivating a New Concept of National Defense

Elasticity is a major criterion of modern national defense. To build an elastic, modern national defense with Chinese characteristics, we need to proceed from China's special circumstances, bring out its strengths, play down its weaknesses, fully exploit the overall superiority of people's war, and develop a new concept of national defense.

People's war is the Chinese army's precious heritage that was relied on by the nation to defeat domestic and foreign foes in the past. While China's army must still depend on people's war to win all kinds of wars of aggression in the future, the philosophy of people's war must be redefined under the new historical circumstances.

As modern science and technology advance by leaps and bounds and are used extensively in the military field, the obsolescence of weaponry and equipment becomes faster and faster. An endless variety of advanced weapons systems has emerged, such as nuclear weapons, chemical weapons, precision guided weapons, electronic weapons, robotic weapons, optical beam weapons, biological weapons, and atmospheric physical weapons. Consequently future wars will differ fundamentally from past wars in all forms. Faced with the threat of new wars and especially the new challenge of the space age, we must understand and appreciate people's war of the future from the perspective of a new concept of national defense.

The underlying principle of people's war is to mobilize, arm, and rely on the masses to wage war. Clearly, this basic principle is still applicable to future wars. But it should be noted that in a future war relative strength is no longer just a matter of counting the number of soldiers on each side. Take a power like China with 1 billion people, for instance. If we simplistically place the emphasis of people's war on "making every citizen a soldier," the ultimate result may be "all citizens and no soldiers." "To turn 1 billion people into 1 billion soldiers and set up military camps all over the nation" is bound to affect the quality of defense buildup.

Of course, future people's wars will still need a large number of soldiers, but this number would not be anything like that required in the past and certainly cannot be equated with the "entire population." To build up strong reserve forces, therefore, we must handle the three basic relationships between man and military hardware, between quantity and quality, and between power and leanness satisfactorily and establish the new concept of seeking strength through excellence and winning on account of quality.

Mobilization and supporting the front are important components of people's war. In the past, however, mobilization was dominated by the mobilization of manpower and the collection of food. Supporting the front, too, essentially meant organizing an array of work teams of a mass nature to act in concert with the field army. Defense mobilization in the future, on the other hand, will be a complex piece of systems engineering. Apart from military mobilization, there will be political, economic, material, and cultural mobilizations and scientific and technical production. Even mobilization itself will definitely mean more than just mobilizing and sending militias to the front to take part in fighting. It will also mean defending large and mid-sized cities in the rear, preserving potential, and spurring production. Even more important, wartime mobilization must see to it that the transition from peace to war is effected promptly. Thus there is more to peacetime mobilization preparations than ensuring a strong and well-equipped army and a reserve of necessary supplies; efforts should also be made to prepare a pool of technical and production capacity. Moreover, China's regions differ considerably, each variously conditioned. All mobilization preparations must be subordinate to and serve national defense as a whole. On the one hand, we should cultivate the idea of the "entire nation as a chessboard." On the other hand, we must proceed from the realities in each war zone and develop the notion of "taking charge of the whole locality" and "dealing with a sudden local event with local mobilization."

Under the future defense mobilization system, we must adhere to the basic principle of combining peace with war to benefit both the military and civilians. We must successfully integrate the military and civilians so that they become interchangeable and can transfer material resources, productive forces, and science and technology between themselves. Only thus can we double investment returns and build up a defense system that is powerful and elastic and meets the dual requirements of peace and national security.

Turning to the value of defense, in the past we used to emphasize "maintaining an army for a thousand days to use for an hour;" defense then was purely a form of consumption. Nowadays, however, defense is value-added. Security and development, actual strength and potential--one must be merged with the other. If we successfully reconcile one with the other, we will have the best of both worlds. In this sense, a scientific defense mobilization system is the key to achieving this merger. Under modern conditions, therefore, the ability to change over from peacetime to wartime mobilization is in itself the ability to fight a war.

12581

CSO: 4005/814



## CADRES ACCUSED OF VIOLATING BIRTH CONTROL REGULATIONS

Guangzhou NANFANG RIBAO in Chinese 17 May 87 p 1

[Summary] The Yingde County CPC Committee recently called for a party disciplinary resolution to expel three cadres who have violated birth control regulations.

The three cadres are Fan Wenying, a physician at the people's hospital, and peasants Li Gonggu and Zhang Jinmei, all of Yingde County. From April 1984 to June 1986, Fan Wenying stole valid birth permit certificates and passed them to a man named Lai, who in turn gave the certificates to Li Gonggu after he himself used some. Upon receiving these certificates, Li sold 5 of them to Zhang Jinmei. There were 7 individuals involved in the case; they sold the certificates at prices ranging from 80 to 500 yuan, netting a grand total of 22,296 yuan. More serious than these illegal sales is the fact that 29 married couples purchased these certificates and that of these, 12 couples thus had their third child, 5 the fourth, 1 the fifth, and 9 had even more. These married couples severely violated birth control planning policy.

Acting on the case, the provincial CPC discipline inspection commission issued a notice in which it pointed out that the existing problems regarding birth control vary. Certain local leaderships and cadres have committed mistakes by their wrong deeds. What is more serious than the wrong deeds is that they conspired with physicians for the illegal sale of falsified certificates. Fan Wenying's case is typical.

The notice also requires that party committees and discipline inspection commissions at various levels be keenly aware of the seriousness of these problems, and that they resolutely carry out birth control tasks in compliance with party and government regulations. Severe disciplinary action should be taken against those who have falsified documents, illegally sold birth permits, or cheated on "disabled children" certificates.

CSO: 4005/840

## EDITORIAL URGES REFORM, OPPOSING BOURGEOIS LIBERALIZATION

Nanning GUANGXI RIBAO in Chinese 27 May 87 p 1

[Editorial: "Combine Opposition to Bourgeois Liberalization with Reform"]

[Excerpts] A regional conference on theoretical work was convened by the Guangxi Zhuang Autonomous Regional CPC Committee just at a time when regional party organizations at all levels have been studying and implementing CPC Central Committee documents on intensifying the struggle against bourgeois liberalization and stepping up reform propaganda. Conference participants studied CPC Central Committee instructions and exchanged and reviewed experience in theoretical work in the region since the 3d Plenary Session of the 11th CPC Central Committee. They also analyzed the current ideological theoretical scene and put forward tasks in theoretical work for the region. The conference will go a long way toward furthering the proper, all-around understanding of and help implement the party line in effect since the 3d Plenary Session of the 11th CPC Central Committee; contributing to the positive education of upholding the four cardinal principles; helping shape public opinion on reform, the open policy, and economic invigoration; promoting the study of Marxism among rank-and-file cadres in Guangxi; mobilizing the enthusiasm of the vast numbers of theoretical workers, and boosting the expansion of the Marxist theoretical ranks.

The ideological and theoretical front in the region faces two major tasks now and in the long historic period ahead. One, uphold and publicize the four cardinal principles and persist in and further the anti-bourgeois liberalization struggle soundly. Two, study and solve the ideological and theoretical problems that arise as this region reforms, opens to the outside world, and pursues economic vitalization; promote and advance reform in the region; open up the region even more extensively; and further invigorate the economy.

Upholding the four cardinal principles and adhering to the general principle and general policy of reform, opening to the outside world, and economic vitalization are the two cornerstones of the line in force since the 3d Plenary Session of the 11th CPC Central Committee that takes Chinese realities as its starting point and aims to build socialism with Chinese characteristics. The two cornerstones are interrelated and interdependent.

As a result, our theoretical work, including theoretical education, theoretical propaganda, theoretical research, and policy-making consulting services must base themselves on and revolve closely around these two cornerstones. We must not remember one and forget the other. Nor can we make them mutually exclusive. Upholding the four cardinal principles and opposing bourgeois liberalization is a long-term assignment. Right now China is still in the initial stage of socialism. For historical reasons, its level of social productive forces is still far below that in developed capitalist nations. The superiority of socialism has only begun to emerge, and it will be the middle of the next century when China achieves the standards of developed nations of the medium rank before the superiority of socialism outshines that of capitalism. Take away reform, the open policy, and economic vitalization, and we will not be able to fully unleash public initiative and creativity. Instead, we will impede the development of productive forces and prevent the eradication of poverty, in which case socialism will lose its appeal and the field will be wide open for bourgeois liberalization. Accordingly, not only must we adhere to reform, the open policy, and economic vitalization, but we must also quicken the pace of reform. Theoretical workers must combine theory with practice, understand the relations between the two cornerstones of the party line since the 3d Plenary Session of the 11th CPC Central Committee, and avoid vacillating to the "left" or right. Even as we unequivocally stand by the four cardinal principles and oppose bourgeois liberalization, we must also go all out to publicize reform, the open policy, and economic vitalization. Both must be emphasized.

Since the launching of the anti-bourgeois liberalization struggle late last year, the region's ideological and theoretical community, led by the party, has thrown itself into the struggle zealously and been strengthened in the process. The next step is to take the struggle to a deeper level. "Taking the struggle to a deeper level" means making it part of public consciousness so that the overwhelming majority of people understand what the four cardinal principles are, why we must safeguard them, and how we can uphold them. In other words, we must come to grips with the link of positive education, a daunting and painstaking piece of work. To do it well, theoretical workers must shoulder a heavy responsibility. We must take the initiative to conduct in-depth investigations and research, zeroing in on problems relating to people's ideological understanding and other practical issues they are interested in, and give theoretically correct responses. But education in the four cardinal principles should be combined with a drive to publicize the general principle and general policy of reform, opening to the outside world, and economic vitalization. Some people sever the four cardinal principles from reform and even set one against the other. That is wrong. With this mistake in mind and combining the realities in the nation with the situation in the region, we must energetically publicize the great achievements of reform and theoretical advances during the last few years. We must explain that reform is the self-improvement and self-development of socialism; publicize the socialist nature of reforms over the past several years and the propriety and stability of our current policies; point out that these policies, which recent practice has shown to be correct, are formulated by the party in accordance with fundamental Marxist tenets after taking into account China's realities at the present stage; and stress the need for further reform, which is the only way to solve various existing difficulties, sort out

all kinds of relationships, and ensure steady, sustained national economic development. We must make clear the long-term nature, complexity, and difficulty of reform; continuously raise the ideological understanding of reform among members of the public and their ability to cope with it; and give a sense of the closeness between economic development and economic reform so that people realize that reform is the key to economic vitalization. We must make everybody in the region appreciate that Guangxi lacks a developed commodity economy and that it must adhere to reform, the open policy, and economic vitalization if it is to eradicate poverty soon. Only by combining the four cardinal principles with reform, opening to the outside world, and economic vitalization can we give a complete account of the party line since the 3d Plenary Session of the 11th CPC Central Committee, raise the consciousness of the entire party and all nationalities in implementing the party line, principles, and policies all around, and more effectively build socialism with Chinese characteristics.

We must advocate liberated ideas and a bold pioneering spirit among the ranks of theoretical workers, endlessly break the forces of old habits, and get rid of obsolete, stagnant, and ossified ideas. In line with the party's principle of "letting a hundred flowers blossom and a hundred schools of thought contend," we must encourage theoretical workers to research and examine issues, express all sorts of opinions, make all kinds of suggestions, and engage in discussions and debates. We must allow people to make mistakes in the course of exploration. Under no circumstances should we put labels on people for the mistakes they make. Party committees at all levels must welcome theoretical workers and the masses to criticize any aspect of their work and offer comments and proposals. Opposing bourgeois liberalization must never be used as an excuse to stifle criticism.

For their part, theoretical workers must study assiduously to improve their Marxist understanding, professional competence, and scientific research standards. They must study, examine, understand, and publicize Comrade Deng Xiaoping's viewpoints. Since the 3d Plenary Session of the 11th CPC Central Committee, Comrade Deng Xiaoping, proceeding from realities and aiming to build socialism with Chinese characteristics, has written many brilliant expositions about upholding the four cardinal principles and opposing bourgeois liberalization, about restructuring the economic and political systems, opening to the outside world, and building a spiritual civilization; and about "one nation, two systems." Studying these expositions will greatly help us understand the party line, principles, and policies and master the Marxist stand, viewpoint, and method.

12581

CSO: 4005/806

## JILIN'S GAO DI MAKES STRONG APPEAL FOR REFORM

SK110700 Changchun JILIN RIBAO in Chinese 23 Jun 87 p 2

[Speech by Gao Di at the provincial meeting on the 7th 5-Year Plan for Social Sciences: "Bring About Prosperous Social Sciences to Serve the Building of Socialism with Chinese Characteristics"--date not given]

[Excerpts] Since the 3d Plenary Session of the 11th CPC Central Committee, the broad masses of comrades on the social sciences front have contributed to upholding the four cardinal principles; to implementing the general principle and policy of conducting reforms, opening to the outside world, and of enlivening the economy; and to bringing about prosperous social sciences and achieving development in them. Prior to the CPC Central Committee decision on economic system reforms, some comrades in our province boldly and with insight engaged in the theoretical study of the socialist commodity economy and enjoyed the "title" of commodity economy section. In the study of applied science, they also provided many excellent suggestions and plans for the province in developing the economy and in building the four modernizations and carried out investigations and appraisals in various fields. Particularly when the tide of bourgeois liberalization ran rampant, many comrades in the research and teaching of social sciences in the province had keen ideological insight, early became aware of the problem, and did a good job in presenting their articles stating the advantage and disadvantage.

Practice has shown that the province's contingent on the social sciences front is in good order and that its strength is strong and quality fine. The provincial party committee has been satisfied with the work done by the comrades on this front. We are convinced that after the meeting on the 7th 5-Year Plan for social sciences, social sciences workers throughout the province will certainly make new and more contributions to building the four modernizations.

Today, I would like to make a few remarks on the development of social sciences in Jilin.

1. We should intensify the struggle against bourgeois liberalization and must insist on positive education on a long-term basis.

Miscalculations by the specific leading personnel of central authorities led bourgeois liberalization to run rampant at the end of 1986. To date this

situation has been changed thanks to all-our efforts by the entire party, thus bringing about a change in the whole situation. In dealing with the problem of bourgeois liberalization, the CPC Central Committee has put forward the principle of refraining from launching movements, bringing about a strained atmosphere in the work, and having everyone pass the buck, and has put forward the task of upholding positive education and conducting education in a penetrating way. We are convinced that with deep-going reform and the day-to-day prominence of the superiority of socialist systems, it is totally possible for us to gradually narrow the market of bourgeois liberalization. However, we have not fully brought into play socialist superiority because we are still in the initial stage of socialism, our productive forces lag far behind that of the developed capitalist countries, and we are still poorer than others and have various difficulties. Meanwhile, we have upheld positive education while conducting reforms and opening the country to the outside world. It is impossible for us to always keep the people inside the greenhouse and have the people avoid corrosive and evil things. All of this has enhanced the long duration and arduousness of ideological and political education. According to Comrade Zhao Ziyang's speech, deepening ideological and political education means conducting education in a penetrating way and having the overwhelming majority of people understand what the four cardinal principles are and why we must maintain them, and understand the issue of how to uphold the four cardinal principles.

The rampancy of the ideological trend of bourgeois liberalization has exposed the weak points of our theoretical work somewhat. The main manifestations are: For some time we have failed to thoroughly and effectively analyze and criticize the erroneous viewpoints of negating the four cardinal principles, to fully appraise and explain the two basic points of the line defined since the 3d Plenary Session of the 11th CPC Central Committee and their mutual relationships, and to explain and offer countermeasures for the timely solution of major problems reflected from the practice of reform. As Comrade Mao Zedong said, building socialism with Chinese characteristics needs thousands and thousands of comrades who systematically, not fragmentally, practically, not emptily; and completely, not lopsidedly grasp and apply the Marxist theories. We hope that all comrades who wish to develop social scientific undertakings will test and improve their Marxist theoretical understanding and level and will display a greater role in upholding the four cardinal principles and in the struggle to oppose bourgeois liberalization.

2. In the study of social sciences, we must adapt ourselves to reform, opening up, and the modernization drive.

In the study of social sciences, we must adapt ourselves to reality. China's major practical issue now is to uphold the four cardinal principles, reform, opening up, and economic invigoration and to persist in building socialism with Chinese characteristics. The proposal on reform, opening up, and economic invigoration are the new contributions and contents of the line defined since the 3d Plenary Session. If we depart from this point, we cannot begin to talk about the line defined since the 3d Plenary Session and the building of socialism with Chinese characteristics.



Comrade Zhao Ziyang pointed out: If we fail to uphold the four cardinal principles, we will inevitably fall into bourgeois liberalization. This principle can be easily understood. However, if we fail to conduct reform, bourgeois liberalization will surely run amok. Only by conducting reform can we mobilize people's enthusiasm and creativity, actively develop productive forces, fully manifest the superiority of socialism, and enable socialism to be truly attractive. If we fail to conduct reform, we will shackle the development of the productive forces, restrict the display of socialist superiority, and make socialism less attractive. This will help to develop bourgeois liberalization. We should resolutely guard against the erroneous trend of separating the practice of upholding the four cardinal principles from that of reform, opening up, and economic invigoration and setting them against one another. In our social sciences study, we should and must theoretically summarize the new situations, problems, and experiences that emerge during reform, opening up and economic invigoration and should make a scientific conclusion.

Reform is a second revolution. Judging from the scope and depth of reform, the changes it brings up are tremendous and fundamental. Reform involves all spheres in our country's social life--from the economic and political spheres to ideology and the form of action. In our reform, we do not have ready-made models to follow or ripe experiences to copy. What we can do is to painstakingly explore what has not been conducted by our forefathers under the guidance of the basic Marxist theory. Theoretically and practically speaking, our tasks are to shift from a long, close, and semiclose state to unprecedentedly large domestic and foreign opening up, from the "product economy" and natural economy to the planned commodity economy, and from old systems to new systems. Comrade Deng Xiaoping said: "Guan Yunchang of ancient China crossed five barriers and killed six generals. In our present reform, we probably must pass more than "five barriers." Reform should be conducted throughout the whole modernization drive. Reform is never smooth sailing, and many new contradictions will constantly arise. Reform challenges theory, and practice calls for theory. Theory is a summary and reflection of our practical life. Theory comes from practice and should precede practice. It should foresee and guide things in the course of our practice. We hope that the broad masses of social sciences workers will conscientiously study our country's reform and opening up, the new situations in the world political and economic fronts since the Second World War, and the various ideological trends of the present age; put forward effective countermeasures for deepening reform and accelerating economic construction; and become a think tank to help the party and government formulate the correct line, principles, and policies.

While grasping the study of basic theory, the vast number of social sciences workers should prominently intensify the study of applied science in an effort to bring into full play their role in giving theoretical instructions. Comrades engaged in the study of social sciences should go deep into the reality and care for reform. The people in our province are weak in their thinking and awareness of the commodity economy because of the province's historical causes, such as an undeveloped commodity economy and poor productive forces. So we should define more ways to develop the commodity



economy and foster thinking about the commodity economy. We are confronted with many new tasks in the course of deepening reform and vitalizing enterprises. We must apply social scientific theory to answer questions such as how to distinguish contracted management from leasing management, how to separate ownership from the right to management, and how to readjust relations between state, collective, and individual interests. Judging from the historical point of view and in terms of the province's geographical position, our province has a closer relationship with the countries in Northeast Asia. So, in line with social sciences theory, we should answer questions about how to strengthen the study of Northeast Asian issues and about how to carry out an open policy. Theoretical workers will neglect their duty if they fail to make convincing explanations and appraisals of the vigorous practices of reform and opening the country to the outside world. Thus, we should resolutely eliminate the tendency to separate theory from practice and should oppose the methods of approaching questions not from the high plane of theories, such as making abstract inference and deduction on the premise of hypothesis, and proceeding from realities but considering something as it stands. Encouraging social sciences workers to go deep into reality and intensifying the study of applied science are questions concerning guiding ideology.

It is certain that theoretically grasping reform, opening up, and the objective law of building socialism with Chinese characteristics is arduous and difficult. Social sciences workers not only should pay attention to the complex nature of the questions they are confronted with and the arduousness of explorations, but should also know that they are confronted with an extremely rare chance for bringing their creativity into play and for developing new theories. This change is brought about by reform and opening up. Reform and opening up have clearly exposed the relationship between various fields of society and their operational mechanism. The exposure of various advantages and disadvantages in various fields of society have provided social sciences workers with an extremely good chance to get direct contacts with and observe society. With rich experiences in social practices, they will be able to do a better job in examining and revising existing theoretical conclusions and in enriching and developing new theories. Thus, comrades engaged in the study of social sciences theory should care for the process of the development of reform and opening up, listen attentively to the voice of the people, improve themselves in the course of reform and opening up, and ceaselessly make scientific and theoretical explanations of the questions that arise in the course of practice.

In some sense, the theoretical study of reform is still a comparatively weak link; there are many outdated, stagnated, and ossified ideas that obstruct the deep development of reform, and "leftist" ideological influence seriously exists. Those who engage in social sciences study are required to strengthen propaganda on reform, opening up, and economic invigoration. We should disseminate the achievements in reform and opening up that have been made over the past few years; the theory of the development of reform and opening up; the socialist character of reform and opening up; the correctness and stability of the current policies; and the necessity, long duration, complex

nature, and arduousness of the further deepening of reform. This will help to upgrade the people's awareness of reform and their ability to bear the burden. We should oppose the practice of expanding the struggle against bourgeois liberalization to the economic field. By so doing, cadres and masses can pool their efforts and foster a good social psychology of understanding and supporting reform to truly promote the deep development of reform.

3. We should persist in the two basic points of the line adopted at the 3d Plenary Session of the 11th CPC Central Committee and implement the policies of letting a hundred flowers blossom and a hundred schools of thought contend.

With regard to persisting in the two basic points of the line adopted at the 3d Plenary Session of the 11th CPC Central Committee and building socialism with Chinese characteristics, we should objectively ask the comrades engaged in social sciences study to emancipate their minds, dispel their misgivings, bravely blaze new trails, and positively make explorations. So, we should resolutely implement the "double-hundred" policies.

Comrade Zhao Ziyang recently pointed out: "In the entire course of reform and opening up," we must ceaselessly eliminate the influence of force of habit and smash outdated, stagnated, and ossified ideas. We should further emancipate our minds and bravely make explorations in conducting the economic theoretical study."

At recent interviews and talks with foreign guests, Comrade Deng Xiaoping stressed on several occasions that over the past few years, we have had both "leftist" and "rightist" interferences. However, the most important danger is the "left." It is not easy to correct the "leftist" ideology formed over the past scores of years. We should oppose primarily the "left" and guard against the rightist interferences. Comrade Deng Xiaoping also stressed repeatedly that we are not conducting reform boldly enough. It is impossible to carry out the four modernizations without courage. Mistakes are hard to avoid at every step of reform; however, we should not stop for fear of a slight risk.

We should realize that, because of the long leftist ideological influence, many comrades have conventions and outdated, ossified viewpoints. The long practice of taking class struggle as the key link and constantly elevating minor mistakes or shortcomings to the level of principles make many comrades who have engaged in scientific theoretical study dare not touch practical problems for fear that they may exceed restrictions. The central authorities have stipulated that the opposition of bourgeois liberalization should not affect the exploration of economic reform policies, rural policies, scientific and technological research, literary and artistic style and techniques, and the daily life of the people. However, many comrades are fearful that they may be alleged as persons of liberalization. In this sense, we can say that eliminating the "leftist" influence is genuinely an arduous task facing the whole party.

Reform, opening up, economic invigoration, and building socialism with Chinese characteristics is the major cause for the whole party and the people of the

whole country. It is an unprecedentedly brand-new cause. We can unceasingly explore and enrich its content in the course of practice. This requires the efforts of the broad masses of comrades who have engaged in philosophic and social sciences study to apply the basic Marxist theory; proceed from national conditions; explore boldly; study new situations, experiences, and problems in reform continuously; open up and carry out the modernization drive; and put forward new ideas. In this aspect, we must adhere to the policy of "letting a hundred flowers blossom and a hundred schools of thought contend" and must not be afraid to make mistakes. We should allow people to make mistakes and encourage them to correct any mistakes they may make. We should not label people because they have made certain mistakes during exploration. It is absolutely normal to conduct all kinds of discussions, give different viewpoints, and form different schools on the premise of upholding the four cardinal principles. In exploration and study, it is certain that many diversified ideas, viewpoints, and different ways of thinking will emerge, of which some may be correct or basically correct and some may be incorrect or absolutely wrong. Some may be in accord with or helpful to the development of Marxism, while others may be departed from or run counter to Marxism in one way or another. This situation is unavoidable and is absolutely normal. To develop theory, our theoretical circles must first be active and liberated. We should not become a pool of stagnant water and be spiritless. The old saying goes: "One person's just word is better than a thousand people's promises." If the ideas of a country, a nation, or a person become ossified and stagnant and if they heed to no different views, then they are hopeless. Therefore, in implementing the "double hundred" policy, we must encourage the spirit of blazing new trails and braving the way forward. We must strive to create a democratic, united, harmonious, and active atmosphere. We should also discover, train, and temper our theoretical ranks during practice. Comrades who adhere to a correct orientation, who dare to explore and are enthusiastic in reform should be organized because such a move will promise us high hopes of success. We should include the study of social sciences on our agenda. We must not use outdated, stagnant, and ossified viewpoints to shackle those persons who should come out into the open; otherwise, our reform will be hopeless and we will have no food to eat. We hope that comrades who have engaged in philosophic and social sciences theoretical study will take Marxism-Leninism-Mao Zedong Thought as the guidance, combine the steadfastness of the fundamental political principle with the flexibility and creativity of proceeding from reality, integrate uncommon revolutionary courage and resourcefulness with realistic scientific spirit, and raise the province's philosophic and social sciences study to a new level.

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WEN WEI PO ON PEACEFUL REUNIFICATION OF CHINA

HK061333 Hong Kong WEN WEI PO in Chinese 6 Jul 87 p 2

[Editorial: "Achieve Peaceful Coexistence in the Course of Peaceful Reunification--Reading Tao Pai-chuan's Article on Peaceful Reunification"]

[Text] A Taiwan academic residing in the United States named Kao Ying-mao, recently wrote an article suggesting to the Taiwan authorities that "on the three communications and four exchanges between the two sides of the strait, the Taiwan side should first adopt the policy of relaxation and then the policy of opening up, and should take the initiative in helping the mainland develop modernization and democratization." Subsequently, Tao Pai-chuan, "national policy adviser" to Taipei, pointed out that "what merits attention most is that neither the newspaper which published the article nor the writer has met with any trouble because of such astonishing remarks" and that "this would have been impossible in the past." Encouraged by such a situation, probably, Tao Pai-chuan's article on the "Prospects of the Republic of China" was published in THE CHINA TIMES on 29 June. The article talked without restraint about the reunification of China. It pointed out that "in the past the government was not willing to talk and the people did not dare to talk. I have paid attention to and studied for over 10 years, but I did not dare talk." Now "I must violate the prohibition and talk about reunification of the motherland."

It is obvious that the reunification of the motherland is no longer an intention hidden in the hearts of the Taiwan compatriots. They now dare to violate the prohibition and speak their views. In particular, the issue has aroused repercussions among people in the ruling stratum, including the "national policy adviser," who aired his informed opinion. This is something which has extraordinary significance.

It is not strange that different political experiences and understandings lead to the formation of different concepts on reunification. What is important is to seek workable methods for reunification.

Both Kao Ying-mao and Tao Pai-chuan proposed realizing peaceful coexistence and peaceful competition before achieving peaceful reunification. What is the truth contained in this proposition? This question merits studying.

If Beijing's stand on the "three communications and four exchanges" is taken as a channel and form for peaceful coexistence to enable the people on both sides of the Taiwan Strait to deepen their mutual understanding and dispel their prejudices, this deserves to be called a valuable proposition; if the realization of peaceful coexistence is taken as a pretext to put off peaceful reunification indefinitely, this "peaceful coexistence" is a means to resist the reunification of the motherland. Tao's article put forward that peaceful coexistence "is preferably 100 years long." This, undoubtedly, runs counter to the strong desire of the people for reunification. The obstacle to peaceful reunification does not lie in the differences between the two sides of the Taiwan Strait. There are differences of course, such as the different social systems, the difference in economic development and living standards, and the difference in the methods of exercising democracy. It is impossible to put the two sides together at once. The crux of the issue is this: These differences do not constitute an obstacle to peaceful reunification, because peaceful reunification will allow the two sides to maintain their original systems and structures. It refers only to the reunification of the country and not to the unification of social systems and ways of life. No country in the world can achieve a balance and unanimity of political and economic development in its different regions; differences should absolutely not become the use of split. In fact, under different systems, the two sides of the Taiwan Strait are stepping up their social and economic development as well as the development of democratic politics. In this sense, the two sides of the Taiwan Strait are becoming closer.

In terms of internal causes, the obstacles to reunification are prejudices, which include the fear of being annihilated after reunification, rather than differences. "Giving up the Republic of China to the People's Republic of China and the three people's principles to the 'four adherences'" (Tao Pai-chuan's words) is one of the prejudices. That peaceful reunification will not hamper Taiwan from implementing the three people's principles is prominent in Beijing's suggestions. We can even make bold to think whether the present names of state will still be used after peaceful reunification. This, probably, merits studying. It takes time and requires frequent contacts and exchanges to dispel prejudices. Undoubtedly, "three communications and four exchanges" is one channel for dispelling prejudices.

Dispelling prejudices as soon as possible and achieving peaceful reunification are necessary and also beneficial to the rejuvenation and development of both sides. First, only reunification will stabilize Taiwan's international position, set the minds of its people at ease, prevent foreign countries from coveting it, and enable the people to have an explicit view of their prospects. Second, only reunification will allow us to organize exchanges and cooperation between the two sides of the Taiwan Strait more fully and rationally; the large market and rich resources on the mainland will help develop Taiwan's economy, whereas Taiwan's technology and capital will be beneficial to the mainland's modernization. Third, only reunification will help separated families realize their wish for family reunions, dispel estrangement, and strengthen the people's unity.

Our conclusion is that we should achieve peaceful coexistence and carry out peaceful competition in the course of peaceful reunification. So long as the KMT and the CPC are willing to realize peaceful reunification, peaceful reunification will certainly come true. The conditions for peaceful reunification exist objectively, the problem is that one of the two sides has not subjectively made adequate preparations but is still full of misgivings. How to arouse the people's consciousness to urge the Taipei authorities to give up their "three not's" policy constitutes an important link in bringing about the peaceful reunification of the motherland.

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